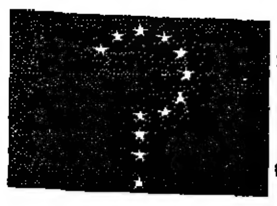


Exchange rate crisis
Does Maastricht matter any more?
Pages 2, 3, 13

Kill or cure
Market reforms sicken German drug makers
Page 12

Growing business
Giving the customers what they want
Page 8

Time is money
Information technology speeds up business
Page 7

FINANCIAL TIMES

Europe's Business Newspaper — TUESDAY AUGUST 3 1993 — D8523A

US threatens air strikes if Serbs continue advance

US officials sought to step up pressure on Bosnian Serbs to halt their military advance by presenting to a Nato conference in Brussels plans for tougher military action, including the use of air strikes. Bosnian president Alija Izetbegovic (left) has threatened to pull out of peace talks in Geneva if fighting continues. Page 14

US warns of peace talks delay: US secretary of state Warren Christopher blamed the violence in southern Lebanon on failure to make progress in the Middle East peace talks. Page 4

Japan's political strains: Splits are showing in Japan's prospective seven-party coalition, with members arguing over appointments to a cabinet expected to be installed this week. Page 14

Weir Group, Glasgow-based engineering company, is buying a package of UK, US and Australian engineering businesses for £16m ($23.8m). Page 20

Carnaudmetalbox, Anglo-French packaging group, said first-half net profits would fall because of adverse exchange rates and difficult market conditions. Page 15

Motorola completed the first round of financing for the launch of 66 telecommunications satellites to create the world's first global mobile telephone service. Page 15

US steelworkers offered board places: Half the 100,000 steelworkers in the US will have representatives on company boards in return for changed working practices if deals with Bethlehem Steel and National Steel are ratified. Page 4

Japan's car sales drop: New car sales in Japan in July fell 10.8 per cent from those of a year earlier, while sales of imported vehicles were down 11.2 per cent, reflecting a lack of consumer confidence. Page 5

Power stations to burn 'filthiest fuel': The UK's Pollution Inspectorate is to allow power stations in Merseyside and Kent to burn orimulsion, a mixture of bitumen and water, which has been denounced as "the world's filthiest fuel". Page 6

US growth held back: The pace of US economic activity quickened slightly in July, according to the Purchasing Managers' Index, but recessions abroad continued to take a toll on US exports. Page 14

Abbey National, UK home loans and banking group, reported an 11 per cent rise in half-year pre-tax profits to £301m, against £270m in the same period last year, but its continental Europe operations sustained an £86m loss. Page 17; Lex, Page 14

Housing market brightens: Borrowing by UK house-buyers is picking up and house prices are continuing their slow rise, according to two reports. Page 6

BT censured over cheap calls: British Telecommunications was told its offer of cheap long-distance calls on Sundays for a limited period was discriminatory to competitors and must not be repeated. Page 6

BBA to focus on core businesses: Engineering group BBA reported first-half profits before tax and exceptional items of £33.1m, up from £32.9m in the same period of 1992. The group is to focus on core businesses. Page 17

Moslems sentenced to death: A special court in Algeria sentenced seven Moslem fundamentalists to death for derailing a train and killing two railworkers. Two other men were acquitted.

Eight killed on Mont Blanc: An avalanche on the Italian side of Mont Blanc killed eight climbers from Italy, Germany and France.

20 die in mudslides: Twenty people died and eight were missing after heavy rain caused mudslides in large areas of southern Japan.

Guildhall may be hiding palace: Archaeologists working at the Guildhall in London's business district believe the remains of a Saxon palace may lie beneath it.

Chocolate pandas for China: Cadbury Schweppes is to build a joint venture plant near Beijing to produce 5,000 tonnes of confectionery products – including chocolate pandas. Page 15

STOCK MARKET INDICES		
FT-SE 100:	2941.7	(+15.2)
Yield	3.9	
FT-SE Eurotrack 100	1252.48	(-1.42)
FT-A All-Share	1457.25	(+0.6%)
Nikkei	20,343.53	(-36.61)
New York lunchtime		
Dow Jones Ind Ave	3554.56	(+15.09)
S&P Composite	449.30	(+1.17)
US LUNCHTIME RATES		
Federal Funds:	3 5/16%	
3-mo Treas Bills: Yld	3.126%	
Long Bond	107 3/16	
Yield	6.559%	
LONDON MONEY		
3-mo Interbank	5 7/8%	(same)
Liffe long gilt future:	Sep 109 15/32	(Sep 109 21/32)
NORTH SEA OIL (Argus)		
Brent 15-day (Sep)	$16.75	(16.78)
Gold		
New York Comex (Aug)	$405.9	(407)
London	$403.25	(405.75)

STERLING		
New York lunchtime:		
$	1.4965	
London:		
$	1.4995	(1.485)
DM	2.555	(2.585)
FFr	8.955	(8.84)
SFr	2.2375	(2.26)
Y	155.5	(155.75)
£ Index	81.4	(81.5)
DOLLAR		
New York lunchtime:		
DM	1.712	
FFr	5.9995	
SFr	1.5005	
Y	104.35	
London:		
DM	1.7155	(1.7406)
FFr	6.0125	(5.9525)
SFr	1.503	(1.5225)
Y	104.4	(104.95)
$ Index	66.1	(66.2)
Tokyo close Y 104.61		

Austria	Sch30	Germany	DM3.30	Malta	Lm0.60	S.Arabia	SR11		
Bahrain	Din1.250	Greece	Dr300	Morocco	MDh13	Singapore	S$4.10		
Belgium	BFr65	Hungary	Ft172	Neth	Fl 3.75	Slovak Rp	KSL45		
Bulgaria	Lw25.00	Iceland	IKr215	Nigeria	Naira45	Slovenia	SLT220		
Croatia	HRD5700	India	Rs40	Norway	NKr16.00	South Africa	R12.00		
Cyprus	C£1.00	Israel	Shk5.90	Oman	OR1.50	Spain	Pta210		
Czech Rp	Kcs45	Italy	L2700	Pakistan	Rs35	Sweden	SKr15		
Denmark	DKr15	Jordan	JD1.50	Philippines	Peso45	Switz	SFr3.20		
Egypt	E£4.50	Kuwait	Fils.600	Poland	Zl 22,000	Syria	S£50.00		
Finland	FM12	Lebanon	US$1.25	Portugal	Esc215	Tunisia	Din1.250		
France	FFr9.00	Lux	LFr65	Qatar	QR12.00	Turkey	L8000		
						UAE	Dh11.00		

Waigel says Maastricht still on course as Schlesinger refuses to cut interest rates

EC governments strive to contain ERM differences

By Andrew Fisher in Bonn, John Ridding in Paris and Lionel Barber in Brussels

EUROPEAN Community governments struggled to suppress their economic and monetary disagreements yesterday after allowing their currencies to fluctuate widely in an bid to preserve a semblance of exchange rate co-operation.

France and Germany led a chorus of governments insisting that the agreement by EC finance ministers early yesterday to reform the rules of the Community's tattered exchange rate mechanism would not derail plans for economic and monetary union.

Mr Theo Waigel, German finance minister, said the next stage of European monetary union would start on schedule next January in spite of the decision to create new fluctuation margins of 15 per cent for the eight ERM currencies.

"Germany is sticking to Maastricht," he said at a joint press conference with Mr Helmut

Pages 2-3
- ☐ Bands produce harmony
- ☐ Balladur blames Germany
- ☐ Bundesbank wins time

Maastricht ratified, Page 6; School of hard knocks, Page 13; Editorial comment, Page 13; Lex, Page 14; Capital markets, Page 18

Schlesinger, Bundesbank president. "The European Monetary System is a central building block of this."

But as the French franc and several other currencies came under sustained pressure within their newly widened ERM bands, tensions remained evident between France and Germany over interest rate policy. Mr Schlesinger again refused to bow to public pressure from Germany's EC partners for an early cut in German rates and reiterating his scepticism over progress towards Emu.

Officials in Brussels and other capitals conceded that yesterday's compromise in Brussels had loosened the constraints of the EMS to a point not far short of allowing all EC currencies to float. "It is marginally better than floating," said one Brussels official.

Adding to the impression of disarray, the founding fathers of the EMS, former French president Valery Giscard d'Estaing and former West German chancellor Helmut Schmidt issued a joint statement saying the agreement was tantamount to suspending the EMS. "This solution may offer some practical advantage only if it remains an adjustment phase of limited duration," the statement said.

In Paris, Mr Edouard Balladur, the French prime minister, explicitly blamed high German interest rates for the crisis that ended the strong link between the French franc and the D-Mark. But he put a brave face on the weekend compromise, saying it had prevented a devaluation of the franc and ensured the survival of the ERM. "The European Monetary System remains in working order with a considerable loosening, but its founding principles remain in effect," Mr Balladur said.

The prime minister said he had favoured a temporary withdrawal of the D-Mark to ease the strains on the currency system, but had agreed to a widening of the fluctuation bands to preserve the process of European integration.

By contrast, Mr Waigel said there had been no suggestion at the EC meeting that Germany should leave the EMS.

At his Bonn press conference, Mr Waigel gave a strong hint that he expected further interest rate cuts from the Bundesbank after the results achieved in Brussels. "With these decisions, the Bundesbank can continue its policy of step-by-step interest reductions without pressure from outside," he said.

However, Mr Schlesinger, who said the Bundesbank had had to cope with speculative inflows of some DM60bn in July – nearly half of this last Friday as the French franc came under renewed pressure – said he could not forecast what the bank might do.

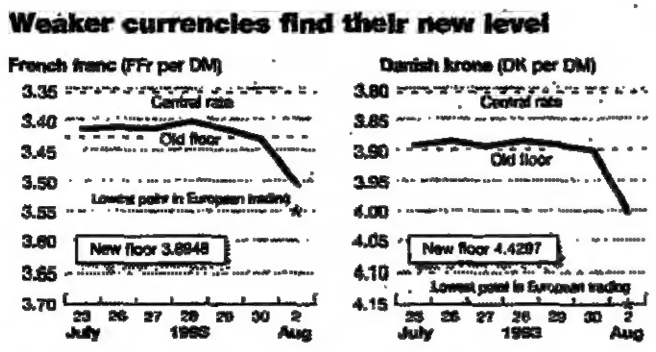
Casting doubts on progress towards Emu, he said: "We have to consider to what extent convergence exists in the EMS. As far as Germany is concerned, it

Continued on Page 14

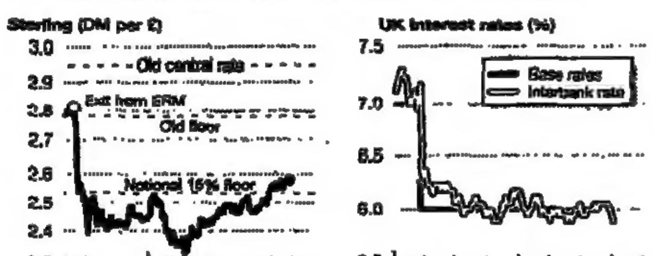
Reuter

Bank of France governor Jacques de Larosière (left), prime minister Edouard Balladur (centre) and finance minister Edmond Alphandéry blamed high German interest rates for the currency crisis

Weaker currencies find their new level



Could the pound live within a 15% band?



Source: FT Graphite

Franc and krone under pressure

By Peter Marsh and James Blitz in London

THE French franc and the Danish krone came under strong selling pressure yesterday, casting doubt about how quickly the relaxation of the European exchange rate mechanism would allow these countries to reduce interest rates.

The stretching of both currencies' lower limits in the ERM encouraged investors to test how far they could push down the value of these currencies against the D-Mark.

At one stage yesterday, the franc was being sold 3.4 per cent below its former ERM floor against the D-Mark, while the krone initially fell more than 6 per cent.

Both currencies later recovered some of the lost ground, but dealers said this had only occurred because Denmark had raised a key borrowing rate to 25 per cent while France left its official interest rates unchanged.

In further developments arising from the decision early yesterday to make the ERM more flexible by widening its fluctuation bands, Portugal, Denmark, and Belgium all indicated their reservations about giving all currencies except the Dutch guilder a 15 per cent margin of movement around the D-Mark. This replaced existing bands of 6 per cent or 2.25 per cent.

As the Belgian franc, Spanish peseta and Portuguese escudo also lost ground against the D-Mark, the German currency and the Bundesbank emerged as the main beneficiaries of the agreement hammered out in Brussels to revamp the ERM to increase confidence in it by international investors.

The accord reduces the obligations on the Bundesbank to buy weak currencies in costly intervention operations. Also, the central bank has been spared having to compromise its record on monetary management by promising interest-rate reductions.

The introduction of extremely wide currency bands has been interpreted as essentially allowing the system's currencies to float while preserving the appearance of a managed exchange-rate system.

Foreign exchange trading was uneven as investors weighed up the implications of the new-look ERM, devised in nearly 12 hours of crisis talks by European Community finance ministers after the substantial selling at the end of last week of the fragile ERM currencies.

The developments boosted the D-Mark, which appreciated strongly against the dollar, rising 2½ pfennigs on the day to close in London at DM1.7155, as dealers took the view that Germany was unlikely to cut interest rates in the near future. In early US trading, the weaker dollar was also trading at a post-war low against the yen of Y104.05.

Sterling, which had risen

Continued on Page 14

Major says timetable for monetary union unrealistic

By David Owen in London

THE MAASTRICHT timetable for European monetary union was now "totally unrealistic" Mr John Major, UK prime minister, said yesterday, as he claimed that the emergency steps taken to salvage the exchange rate mechanism vindicated his decision to suspend sterling's membership last September.

As government loyalists and Euro-sceptics alike sought to draw comfort from the day's events, which also saw Britain become the eleventh European Community state to ratify the Maastricht treaty on European unity, Mr Major said he hoped the decision to allow wider fluctuation of currencies within the ERM would promote economic recovery in Europe.

In the timetable, if a commencement date for stage three of monetary union has not been set by the end of 1997, then EMU must in any case go ahead by 1999.

In a remark later played down by Downing Street, he appeared to hold out the prospect that the changes could herald lower domestic interest rates.

There remained "no prospect" of Britain returning to the ERM "in the near future", he said. The government would continue to set monetary policy by "what's right for the United Kingdom".

But as senior ministers trumpeted the message that recent developments justified the government's European policy, their thunder was partly stolen by Mr Norman Lamont, the former chancellor of the exchequer, who predicted that there would now be no single European currency and described Maastricht as "a bit of a fossil".

Conservative party Euro-sceptics, meanwhile, pointed to the "supreme irony" of Britain ratifying Maastricht on the day the ERM collapsed.

Downing Street emphasised that "relative currency stability" remained a desirable objective and looked ahead to a process of examining why the old system had not worked and how existing fault-lines could be eradicated.

It pinned the blame for the system's difficulties squarely on the strains resulting from German reunification. It indicated that an autumn summit of member states to discuss possible solutions was likely.

In his forthright reaction to the decision to create a 15 per cent fluctuation band for all ERM currencies except the D-mark and the guilder, Mr Lamont said: "This does mean the end of a single currency, the end of monetary union in Europe. This makes the Maastricht treaty redundant." It was "extraordinary that we have spent so much time constructing this artificial creation and, frankly, it has gone out of the window". He added: "Maastricht is now truly dead. There will be no single currency and we should not attempt to create one again. It was always an artificial creation."

Mr Kenneth Clarke, the chancellor of the exchequer, spoke of "a good 24 hours for Europe" as he stressed the need for co-operation rather than "beggar-my-neighbour" devaluations among EC partners. The system was now proceeding "on more pragmatic lines," he said. Britain would "follow our own domestic guidelines about determining ... interest rate levels in the light of British needs."

Maastricht ratified, Page 6

CONTENTS

 No 32,130 Week No 31 LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

THE ERM: PICKING UP THE PIECES

How ministers agreed to march to common tune

ERM bands produce sort of harmony

By Lionel Barber in Brussels

IT WAS Mr Karlheinz von den Driesch, the amiable, grey-bearded spokesman for the German finance ministry, who first broke the news.

Stepping into the foyer of the Borschette building in the centre of Brussels, he pushed his way through a wall of television cameras and frantic reporters, to whisper five words to a familiar German journalist: "Wide fluctuation bands for everyone."

At 1.45am – just 15 minutes before the Tokyo financial markets opened – the world learned that European Community finance ministers had, after a fashion, saved the European exchange rate mechanism.

The ministerial meeting was a tense, at times brutal power-struggle involving almost 60 officials from 12 member states, including central bank governors and members of the European Commission. It led to a solution which, in the words of Mr Wim Kok, Dutch finance minister, is "the worst but one solution".

Each state had its own "bottom line"; each had a de facto veto on the outcome of the crisis talks which began on Saturday afternoon with a seven-hour session of the secretive EC monetary committee.

That meeting produced only the barest agreement on principles: that the ERM and its central parity grid had to be preserved. There was no agreement on how this goal was to be achieved, according to an official.

The main difficulty centred on France's absolute refusal to countenance a devaluation of the franc, and Germany's absolute insistance that the Bundesbank could not be expected to offer unlimited intervention – not least because of the risk of bloating its money supply and triggering a new spiral of inflation.

In the early afternoon session on Sunday, Franco-German divisions appeared momentarily to have abated when Mr Theo Waigel, German finance minister, and Mr Edmond Alphandéry, French economy minister, put forward a joint initiative suggesting the D-Mark leave the ERM.

A European monetary official said Germany's preferred solution was to widen the margins of fluctuation for all ERM currencies in order to limit intervention; but the exit of the D-Mark suggested an apparent willingness to patch up differences with the French. It led to Mr van den Driesch's confident prediction – "There is a solution" – followed by a report from Paris that Mr Edouard Balladur, French prime minister, was due to hold a news conference at 7pm.

Suddenly the talks stumbled. The Netherlands, which has traditionally maintained a currency parity with the D-Mark, signalled that it intended to follow the Germans out of the ERM. It would not endanger the monetary stability which flowed from the guilder's close link with the D-Mark.

The Dutch protest led to a stampede among the rich northern European countries, with Luxembourg, Belgium and then Denmark indicating that they, too, wanted to leave. "Suddenly we were looking at France sitting all alone in the ERM with Spain and Portugal," said one source.

At this point, news came that Mr Balladur had cancelled his press conference. The talks shifted to a widening of the fluctuation bands, with Germany calling for France to shift from its narrow 2.25 per cent margin to 6 per cent.

According to a European monetary official, the Germans sweetened their 6 per cent offer with an implicit cut in short-term interest rates – a promise which had added credibility since Mr Helmut Schlesinger, Bundesbank president, and Mr Hans Tietmeyer, his deputy and successor-designate, were present in the talks.

However, French officials turned down the offer on the grounds that it would have amounted to a devaluation which again would have put France in a "second tier" with Spain and Portugal. France also turned down an offer of a 10 per cent fluctuation band. "They did not want the margin to be tested," said one official present at the talks.

Then the French counter-attacked. In one tense quadrilateral meeting between Germany, France, and the Netherlands chaired by Belgium in its role as president of the EC, the Dutch came under "tremendous" pressure to break their link with the Germans; but Mr Kok and Mr Wim Duisenberg, Dutch central bank governor and front-runner to head the putative European central bank, refused to buckle.

Mr Jacques Delors, European Commission president, also weighed in on behalf of the Germans leaving the ERM and declaring that he was opposed to a general flotation of currencies. The statement was not cleared with the rest of the Commission, a senior EC official said.

The British, forced out of the ERM last September along with the Italians, remained low-key throughout, despite earlier talks of an "honest-broker" role being played by Mr Kenneth Clarke, chancellor of the exchequer. He appears to have accepted advice that it could encourage a backlash from Europeans frustrated that the British, after all, might have had a point about "fault-lines" within the ERM.

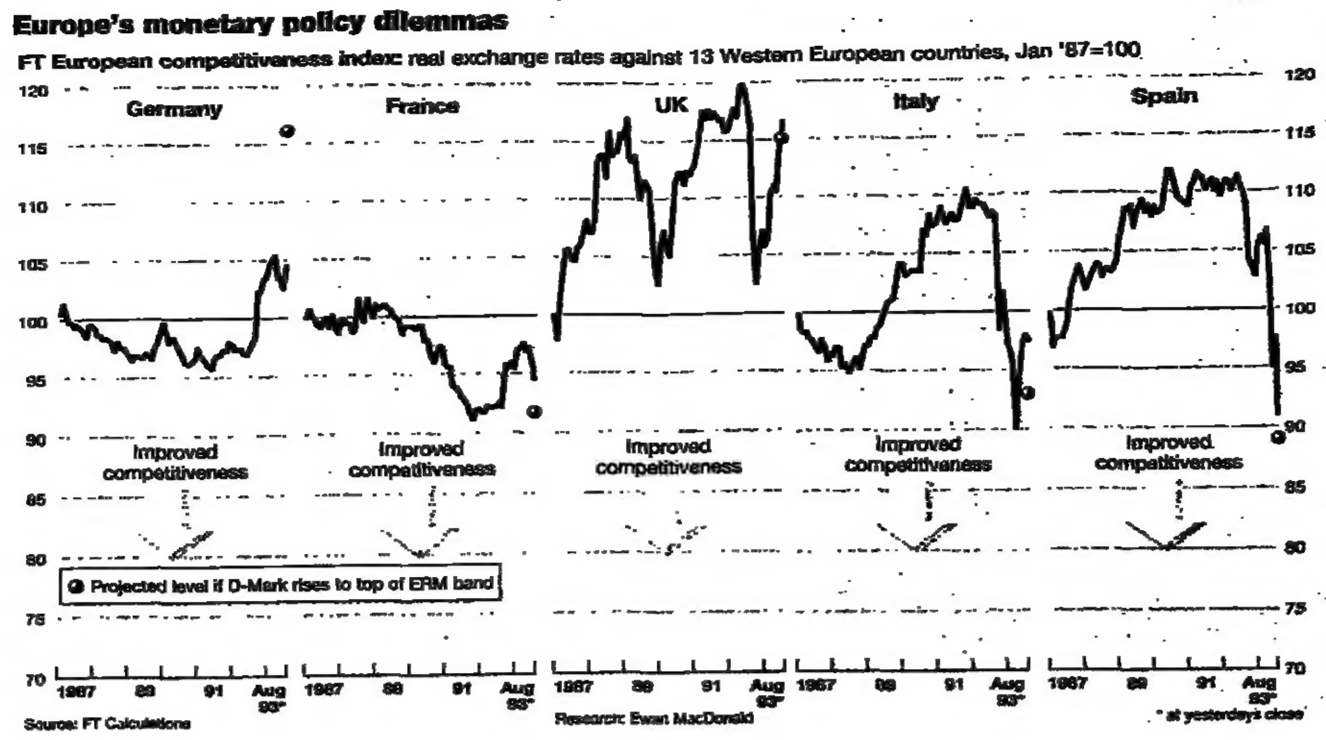
Finally, after numerous variations of wider bands involving various member states, the solution was found: a fluctuation band of 15 per cent for all currencies barring the D-Mark and guilder.

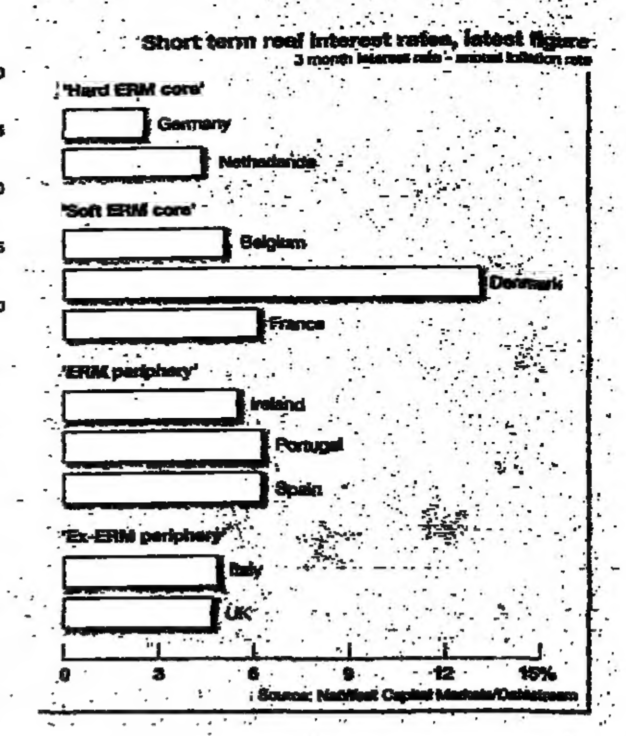
The aim was two-fold: to disguise a de facto French devaluation as well as the de facto suspension of the system.

Grim ministerial faces early yesterday revealed the tensions of the previous 12 hours. They also pointed to the lack of unity within the Community, summed up by the fact that the German-Dutch agreement to maintain parity was not even included in the official communique.

The ERM had survived, but at a substantial price.

Europe's monetary policy dilemmas





Welcome flexibility, goodbye simplicity

Life in the new system promises to be more complicated, writes **Edward Balls**

FOR ALL its flaws and inflexibilities, the semi-fixed version of the exchange rate mechanism, which Europe's leaders effectively abandoned last the weekend, had one great advantage: simplicity.

Europe's new dirty floating regime may, at last, be about to deliver cuts in interest rates that France and most of its other ERM partners desperately need.

But, after one day of practice with the new "flexible ERM", it is already apparent that life will continue to be economically complicated, as well as politically difficult, for Europe's finance ministers.

Part of the new challenge of life after the hard ERM is technical: until last weekend, those European countries with narrow ERM bands had no effective power to pursue an independent monetary policy.

Now, with the freedom to appreciate and depreciate by as much as 15 per cent either side of the old parities, national central banks have much more discretion to cut interest rates below the Bundesbank's. The UK, for example, has lowered interest rates well below those of the ERM countries but would still have managed to remain within the system's new and gaping bands.

This new freedom should bring welcome relief to Europe's troubled economies, assuming that they take advantage of their bands and cut interest rates. Indeed, the reason for the exchange pressure on France, Belgium and Denmark, which effectively destroyed the ERM last Friday, was a belief in the markets that these economies could not sustain Germany's high rates.

The right-hand chart above shows just how distorted the structure of European real interest rates had become. Germany, battling with a persistent public sector inflation problem, needs higher rates than low inflation countries like France. But measured by inflation-adjusted real interest rates this monetary squeeze was doubly severe.

The result is that countries in the "soft core" of the loose ERM – Belgium, Denmark and France – have real interest rates which are twice as high as those in Germany.

The economic case for substantial cuts in French, Belgian and Danish interest rates is therefore compelling. The depressed state of their economies, low levels of inflation and falling producer prices all suggest that the inflation risk from depreciation can be ignored for now.

In any case, the British experience of the past few months suggests that, once the markets become used to the floating rate and convinced that lower interest rates are delivering economic recovery, the exchange rate is at least as likely to go up as to fall further.

Yet things may not be that simple. For the deal early on Monday morning did not solve the economic and political problems that German unification has bequeathed to Europe. It merely began a new, and maybe equally turbulent, period of effectively floating, rather than effectively fixed, exchange rates.

The hard ERM's collapse, and the publicly expressed desire of leading governments to keep to the timetable of the Maastricht treaty and thus return to narrow ERM bands by the beginning of next year, make the monetary choices more complicated.

> Last weekend's deal did not solve the problems that German unification has bequeathed to Europe

For if the French government is to avoid the charge that it has broken its promise not to devalue and recapture the anti-inflationary credibility that the hard ERM provided, then it must seek a return to narrow ERM bands as soon as possible. But the further France cuts interest rates, the longer it will have to wait for the Bundesbank to catch up and the further the monetary union timetable will be delayed.

That may help explain why France did not cut rates yesterday, even though the markets were previously selling the franc because French interest rates were too high.

A second reason for concern is that the ERM's new flexibility might lead to complaints about "competitive devaluations" of the sort that France has accused Britain, in particular, of engaging in over the past nine months. This worry would be exacerbated if interest rates cuts and exchange rate depreciation occurred in a relatively unco-ordinated fashion.

Might these worries about competitive devaluations make sense? The charts above show the Financial Times's measure of price competitiveness in Europe, based on nominal effective exchange rates which are then weighted by European trade shares and adjusted for relative producer price inflation rates.

In fact, the evidence suggests that France has already made substantial gains in competitiveness over the past six years.

Yesterday's 3 per cent franc depreciation only goes part of the way to recapturing the losses that France has suffered since sterling and the Italian lira left the ERM last September. But if the *franc fort* policy was about improving French price competitiveness, then it has already been a success. The further the franc falls, the greater the gains.

The UK, by contrast, has not taken great advantage of floating exchange rates to recapture its lost competitiveness. Sterling's appreciation of recent months has not completely removed the gains made since last September. But Britain's effective exchange rate, adjusted for the the UK's relatively rapid wage inflation in the late 1980s, has actually appreciated by 16 per cent since 1987 – a marked loss of competitiveness.

But it is German industry which stands to lose the most from a sizeable fall in the value of the French franc over the next few months.

The chart shows that the inflation-adjusted D-Mark has already appreciated by 5 per cent since last September. And the logic of the Bundesbank's high interest rate policy, the German government's fiscal problems and the softening of the ERM, all point to a further rise in the currency.

Whether Europe's governments will be able to live with the differential movements in interest rates and shifts in exchange rate competitiveness that the new soft ERM implies could prove to be an equally severe test of their ability to put collective concerns above national interests.

That Mr Theo Waigel, the German finance minister, used a press conference yesterday to point out that Europe's finance minsters and central bank governors have agreed "not to abuse monetary policy to acquire artificial competitive advantages", is a worrying sign of tensions to come.

British exporters take a positive view

By Emma Tucker, Economics Staff

INTEREST RATE cuts in Europe could speed up economic recovery in Britain.

But the benefits of stronger European growth need to be weighed against loss of UK competitiveness in big continental economies such as France, as well as the uncertainty and instability of effectively floating exchange rates.

With the scope for exchange rate fluctuations so wide, UK industrialists were yesterday facing the problem they used to face before the European exchange rate mechanism was established: how to assess prospects for the newly liberated currencies.

"I would be surprised to find any UK exporter or importer signing a contract for anything over the next few days," said Mr Richard Brown, deputy director-general of the British Chambers of Commerce. "They just won't know what it is worth."

Even in the longer term, currency instability could upset business. Said Mr Richard Freeman, chief economist at Imperial Chemical Industries: "It is all very well talking about lower interest rates boosting growth, but currency instability does impact on trade. It is what causes protectionist pressures."

Volatile exchange rates are unlikely, however, to upset the advances exporters have made since sterling was devalued. Britain had a 10-month start over the countries that devalued yesterday and interest rate cuts in Europe – if or when they come – will make it easier for the UK government to cap sterling's rise with further rate cuts of its own, allowing the pound to stay competitive.

"Our exporters have done well in European markets, so stand to do well from European growth," said Mr Brown.

The companies that will suffer most are likely to be those that compete directly with France and are particularly price sensitive, such as chemicals and pharmaceuticals.

Yet, on balance, most economists believe the boost to UK exports from faster growth in Europe will outweigh the loss of competitiveness.

Mr Howard Davies, director-general of the Confederation of British Industry said: "If the new ERM arrangements allow France and other European economies to cut interest rates and boost growth, then that would be good news for British business. The chancellor should be ready to cut UK rates if rates fall elsewhere, or if the pound rises sharply."

A possible negative factor for European growth and for UK exports, is that the stronger D-Mark might slow Germany's recovery from recession.

"Germany needs a stronger D-Mark like it needs a hole in the head, and so does Europe," said Mr Freeman of ICI.

Mr Michael Saunders, UK economist at Salomon Brothers, said: "Near term, the stronger D-Mark is likely to deepen the German recession and reduce inflation pressures. Thus, hopes for an early recovery in Germany are even more tenuous than had previously been the case."

Alternatively, the appreciation of the D-Mark versus other ERM currencies strengthens the argument that German interest rates will fall further than expected, paving the way for more aggressive cuts across the rest of Europe.

There was a degree of disappointment that plans for monetary union and a single currency have suffered a setback.

Mr Brown said UK industrialists would be disappointed that monetary union was further away, while Mr Freeman said he feared that the problems of the ERM would slow completion of the European single market.

The UK's Institute of Directors believes a "single" currency is off the agenda for the foreseeable future. However, Mr Peter Morgan, director-general, said European finance ministers should "give urgent consideration to the adoption of a 'common' currency, in parallel with national currencies to restore stability".

Such a common currency could be used by businesses to reduce the cost of cross-border transactions, he said.

Economists were reluctant to quantify what the revamped ERM meant for growth in the UK. Most agreed, however, that the net effect, while slim, would at least be positive.

Danes and Belgians bolster currencies

By James Blitz, Economics Staff

THE central banks of Belgium and Denmark took measures to arrest the fall of their currencies against the D-Mark yesterday, possibly fearing sharp outflows from their bond and equity markets after the widening of the exchange rate mechanism's bands.

Most ERM countries appeared concerned yesterday that the new ERM regime could lead to disorderly devaluations of their currencies, and left interest rates unchanged.

But the Belgian authorities were concerned to hold their currency close to its former ERM floor to the D-Mark, intervening in the market at the BFr21.50 level against the German currency.

Denmark took even more drastic measures, raising one-month interest rates to 25 per cent, after the krone had fallen to DKr4.15 against the D-Mark from the previous floor of DKr3.9016. Both Belgium and Denmark have reasons to be more concerned than other countries about the prospect of a general exchange rate float against the D-Mark.

Belgian equity and bond markets have benefited from international flows of funds because of the close monetary and exchange rate relationship that the Belgian franc has had with the D-Mark in recent years.

Now that this has been untied, investors may focus more closely on the country's fundamental economic problems, including a huge public debt.

Denmark has a fundamentally stronger economic position than have many ERM countries, with the lowest inflation in Europe and a trade surplus. But some analysts believe the unravelling of the ERM may lead dealers to bracket Denmark with Sweden and Finland, both of which have undertaken substantial devaluations against the D-Mark in recent years.

ERM PARITY GRID
Bilateral central rates and selling and buying rates from August 2 1993

		BFr/LFr 100=	DKr 100=	FFr 100=	DM 100=	I£ 1=	Fl 100=	Esc 100=	Pta 100=
Belgium-Lux.	S	–	627.880	714.030	2395.20	57.7445	2125.60	24.2120	30.2715
	C	–	540.723	614.977	2062.55	49.7289	1830.54	20.8512	26.0696
BFr/LuxFr	B	–	465.665	529.660	1776.20	42.8260	1576.45	17.9570	22.4510
Denmark	S	21.4747	–	132.066	442.968	10.6792	393.105	4.47770	5.59850
	C	18.4938	–	113.732	381.443	9.19676	338.537	3.65618	4.82126
DKr	B	15.9266	–	97.9430	328.461	7.92014	291.544	3.32090	4.15190
France	S	18.8800	102.100	–	389.480	9.38950	345.650	3.93700	4.92250
	C	16.2608	87.9257	–	335.386	8.08631	297.661	3.39056	4.23911
FFr	B	14.0050	75.7200	–	288.810	6.96400	256.350	2.91990	3.65050
Germany	S	5.63000	30.4450	34.6250	–	2.80000	(103.058)*	1.17400	1.46800
	C	4.84857	26.2162	29.8164	–	2.41185	88.7526	1.01094	1.26395
DM	B	4.17500	22.5750	25.6750	–	2.07600	(76.4326)*	0.87100	1.08800
Ireland	S	2.33503	12.62610	14.3599	48.1696	–	42.7439	0.486881	0.608731
	C	2.01090	10.8734	12.3666	41.4757	–	36.8105	0.419295	0.524232
I£	B	1.73176	9.36403	10.6500	35.7143	–	31.7007	0.361092	0.451462
Netherlands	S	6.34340	34.3002	39.0091	(130.834)*	3.15450	–	1.32266	1.65368
	C	5.46286	29.5389	33.5953	112.6730	2.71662	–	1.13906	1.42413
Fl	B	4.70454	25.4385	28.9381	(97.0325)*	2.33952	–	0.98094	1.22644
Portugal	S	556.890	3011.20	3424.80	11481.10	276.938	10194.30	–	145.180
	C	479.590	2593.24	2949.37	9891.77	238.495	8779.18	–	125.027
Esc	B	413.020	2233.30	2540.00	8517.90	205.389	7560.50	–	107.670
Spain	S	445.418	2408.50	2739.30	9191.20	221.503	8153.70	92.8760	–
	C	383.589	2074.15	2356.98	7911.72	190.755	7021.83	79.9828	–
Pta	B	330.342	1786.20	2031.50	6812.00	164.276	6047.10	68.8800	–

S = Exchange rate at which the central bank of the country in the left hand column will sell the currency identified in the row at the top of the table.
C = Bilateral central rate.
B = Exchange rate at which the central bank of the country in the left hand column will buy the currency identified in the row at the top of the table.
*These buying and selling rates will not be operational. Reflecting a bilateral agreement between the German and Dutch monetary authorities, the following rates will continue to apply: Netherlands (DM100: selling 115.2350, buying 110.1675). Germany (Fl100: selling 90.7708, buying 86.78) Source: Bank of England

Same rules but easier to play

By Stephanie Flanders

WIDENING the currency bands to 15 per cent for all except the D-Mark and the guilder makes it much less demanding to be a member of the ERM. But the basic rules of the system are otherwise the same.

It is a "parity grid system", meaning each currency can only fluctuate a certain amount from a fixed "par value" with regard to every other member currency. In the revamped mechanism, all the par values are unchanged, but these rates will be a lot less relevant now that currencies can oscillate so widely.

Before last weekend, a currency's maximum deviation from its par value was only plus or minus 2.25 per cent, except for the Spanish peseta and the Portuguese escudo, which could move 6 per cent either way.

With 15 per cent bands, a currency could be theoretically devalued by 30 per cent – from its ceiling to its floor – against another member without falling out of the system.

A look at the new floor and ceiling values for each member currency shows the impact of the broader bands. The French franc can now fall as low as FFr3.8948 against the D-Mark, or rise as high as FFr2.8881, before endangering its position in the ERM grid. Until yesterday morning, the franc's floor and ceiling against the D-Mark since 1987 had been FFr3.4305 and FFr3.2792, respectively.

According to the ERM's rules, whenever a currency is at its floor against another member, the central banks of both countries have to intervene to prevent the currency from falling out of the system.

In practice, the monetary authorities used to prop up a weak currency well before then. Even so, many economists doubt that the situation will arise very often while the wider fluctuation bands are in place.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850. Fax ++49 69 5964481, Telex 416193. Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621. Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41. Fax 33 93 53 35.

THE ERM: PICKING UP THE PIECES

Balladur blames crisis on high German rates

By John Ridding in Paris

MR Edouard Balladur, the French prime minister, yesterday blamed high German interest rates for the currency crisis within the European exchange rate mechanism which has ended the strong link between the French franc and the D-Mark.

The prime minister said he had favoured a temporary withdrawal of the D-Mark from the ERM to ease the strains on the currency system but that the French government had agreed to a widening of the bands within which ERM currencies can fluctuate to preserve the process of European integration.

Mr Balladur said the French government would remain committed to the stability of the franc. However the French currency came under strong pressure on the foreign exchange markets.

Political commentators in Paris said that a sustained decline in the franc would seriously damage the government's credibility. "The strong franc has been at the centre of the government's policies," said one Paris-based diplomat. "The easing of the D-Mark link represents a big risk."

Mr Balladur said that the French government had favoured a "holiday" for the D-Mark to allow Germany to absorb the impact of the costs of unification. But he expressed satisfaction with the compromise agreed in Brussels because it prevented a devaluation of the franc and ensured the survival of the ERM.

"The European Monetary System remains in working order with a considerable loosening, but its founding principles remain in effect," the prime minister said.

Mr Balladur admitted that the negotiations in Brussels had been difficult.

Privately, French officials said that disputes with Germany had threatened to deadlock the negotiations on two occasions. But the French prime minister said that the Franco-German relationship "remains the basis for any European construction that is solid and durable".

Mr Edmond Alphandéry, the economics minister, said that the decision to widen the margins for ERM currencies was "the best solution for the crisis in the ERM". He added that the franc "would support itself well" over the coming days.

Political commentators in Paris said that the weakening of the franc/D-Mark link could exacerbate divisions in the ruling RPR-UDF coalition.

Such concerns were eased slightly by a vote of support from Mr Jacques Chirac, head of the prime minister's Gaullist RPR party. "I fully approve of the government's stance, notably in the monetary negotiations of the past few days," said Mr Chirac, who has previously displayed an equivocal stance on the strong franc policy.

The Paris stock market reacted enthusiastically to the reform of the ERM.

The CAC-40 index rose by more than 2 per cent to close at 2,129 on hopes that the easing of the currency link with Germany would allow interest rate cuts in France.

Dollar to gain most from forex turmoil

ANALYSTS in New York expect the dollar to be a major beneficiary of the crisis in European currency markets, writes Patrick Harverson in New York.

Although the dollar should remain weak against the Japanese Yen, it is likely to draw considerable strength from the ERM's troubles, and in particular from the prospect of lower European interest rates.

Mr Donald Straszheim, chief economist at Merrill Lynch, says: "What you'll see is a sharp decline in rates in all of Europe, and, accordingly, the dollar ought to strengthen." Merrill Lynch expects the US currency to rise from its current value against the D-Mark of about DM1.71 to DM1.90 by the middle of next year.

Mr Straszheim is also one of several Wall Street economists who warm to the prospect of the ERM's demise.

"The whole development was long overdue – the system was really not sustainable. I am delighted to see the markets establishing exchange rates, and not the bureaucrats."

The dollar is also favoured by the likely future direction of US interest rates. Mr Alan Greenspan, the chairman of the Federal Reserve, the US central bank, recently warned financial markets that domestic interest rates would be raised if inflationary pressures reappear in the economy. A combination of higher US rates and lower European rates over the next year will lure even more funds into the dollar.

Part of the dollar's future, however, depends upon the performance of the US and European economies. Mr Joe Taylor, an analyst with Technical Data in New York, believes the US economy will not grow especially fast, "so the upward move in the dollar will be somewhat muted."

However, Mr John Lipsky, chief economist with Salomon Brothers in New York, believes that financial markets will over-estimate the impact of lower European interest rates on local economies.

"The European recovery will be gradual, and probably disappointing."

Franc faible could fortify the French

By John Ridding and Alice Rawsthorn in Paris

FRENCH politicians and industrialists were yesterday grappling with a new set of risks and rewards as the government's *franc fort* policy of maintaining a stable currency looked close to collapse.

The widening of fluctuation bands for the French currency from 2.25 per cent to 15 per cent leaves the franc more than ever vulnerable to the foreign exchange markets. But by decoupling the franc from its rigid D-Mark parity, the move may also provide the scope for the interest rate cuts that are necessary to revive the economy and sharpen the competitive edge of French exporters.

The foreign exchange markets yesterday seemed to be pointing towards a *franc faible* (weak franc). However, most economists cautioned against a snap judgment on the fate of the franc.

"Of course we can expect strong pressure in the short term," said Ms Marie Owens-Thomson, international economist at Midland Global Markets. "But once the market finds its feet the franc should stabilise at between FFr3.50 and FFr3.55 to the D-Mark."

The consensus view is that there is little prospect of the franc depreciating by the full amount permitted by its more flexible fluctuation band.

Political considerations will encourage the government to limit the fall in the franc. "The strong franc has become an important symbol of French identity," says one Paris-based diplomat. Mr Edouard Balladur's government has committed itself to maintaining the stability of the currency and its parity with the D-Mark.

But the government is also determined to reduce interest rates to stimulate the economy. "Ultimately, the French people are much more concerned by the prospect of unemployment than by the stability of the franc," said Mr Dominique Moïsi, deputy director of the French Institute for International Relations. "There will be a lot of Frenchmen who think a weaker franc may be bad for our pride but good for our economy."

Yesterday the government played down the prospects of rapid cuts in interest rates, emphasising instead the need to keep the currency stable. "The absolute priority is the stability of the currency both internally and externally," said Mr Edmond Alphandéry, the French economy minister. But reduced borrowing rates are clearly on the agenda.

"We want to open the way to interest rate cuts by unblocking the EMS (European Monetary System) constraint," said Mr Alain Madelin, minister for small business, who advocated floating the franc in December last year.

According to Mr Madelin, there was no contradiction between maintaining the value of the franc and reducing interest rates. He argued that the assaults on the franc during the ERM crisis were not a result of the fundamentals of the French economy and that the stimulatory effects of interest rate cuts would restore confidence in the foreign exchange markets. He believed it should be possible to reduce intervention rates – which set the floor for money market interest rates – from the current level of 6.75 per cent to about 4 per cent.

Economists are largely in agreement. "The fundamentals are strong," said Mr Jean-Paul Betbèze, chief economist at Crédit Lyonnais in Paris. "Inflation is half the rate it is in Germany and exporters will be given a boost by any depreciation."

French companies were almost universally positive about the prospect of lower interest rates. Although most large companies have placed the bulk of their debt at fixed interest rates, many have faced steep bills for the interest payments on their short-term borrowings, such as bank overdrafts, at floating rates. Small companies tend to have less sophisticated financial arrangements and have been badly affected by high interest rates.

"There is no question that lower rates will ease the financial pressure on the corporate sector," said Mr David Harrington, French market strategist at James Capel in Paris. "And they should eventually help to restore confidence in the domestic economy."

Meanwhile, any weakening in the franc augurs well for exporters. "It's good news for us," said Mr Claude Taittinger, chairman of Taittinger, the French champagne house which relies on exports for two thirds of turnover.

Other companies have also suffered. The total value of French exports fell by 12 per cent to FFr279bn (£31.8bn) in the first quarter of this year, according to the Customs Office. The car industry suffered a 20 per cent fall in foreign sales during that period.

French exporters cannot expect to see an improvement across the board, given that a number of European currencies are likely to fall with the franc. However they ought to become more competitive in stronger currency markets such as Germany, the UK and US.

One of the main arguments in favour of the *franc fort* policy was that it created a stable currency for exporters. But most companies yesterday seemed willing to view the risk of instability as a cheap price to pay for greater competitiveness in their export markets.

"The only real problem would be if the currency markets became very unstable," said Mr Taittinger. "After all, we want to concentrate on making champagne, not on gambling on exchange rates. We don't want the franc to become a yo-yo."

Associated Press and Reuter

Currency dealers and brokers gesture in Paris yesterday as the French franc continued its slide against the D-Mark

Bundesbank gets room for manoeuvre

By Christopher Parkes in Frankfurt

MR Helmut Schlesinger, Bundesbank president, came away from Brussels this weekend with parting gifts of inestimable worth for his successor, Mr Hans Tietmeyer.

The German central bank had been freed for the foreseeable future from its obligations to spend billions of D-Marks in support of weaker European exchange rate mechanism currencies, he said in Bonn yesterday.

He might have added that, for a while at least, the bank could get on with its main job of looking after the D-Mark and German monetary policy without harassment from other countries for rapid lowering of interest rates. But Mr Schlesinger is not given to immoderate language.

In keeping with his mild manner, Mr Schlesinger's main gift to Mr Tietmeyer came modestly packaged: "Naturally, we have also gained rather more room for manoeuvre for our own policies," he said.

In keeping with the bank's tradition for Delphic utterances, this is open to interpretation. Most importantly, it raises the question of how Mr Tietmeyer and his central council colleagues use their room for manoeuvre.

Mr Peter Lang, an economist at Bayerische Vereinsbank, believes the relief could prompt the Bundesbank to proceed even more cautiously than in the recent past with its snail's-pace downward shift with the short-term discount lending rate.

Recent indicators – not least an inflation rate more than double the Bundesbank's favoured 2 per cent, and the inevitable expansionary impact on money supply of last week's DM60bn (£23bn) on ERM intervention – suggest the bank will feel there is no sense of urgency. With the external pressure off, there will be even less.

In the recovery stage of the last recession, the German central bank slashed its discount rate by 3.5 percentage points between August 1982 and March the following year. So far in the current slump, it has taken since last September to cut the effective "floor" lending rate by just 1.5 points to 6.75 per cent.

Before last Thursday's Bundesbank council meeting, expectations had been growing that the process would be speeded up.

Pro-cut observers had noted that the danger of a resurgence of inflation had been receding fast. The underlying year-on-year rate was below 3 per cent by the Bundesbank's own reckonings. Annualised money supply growth was tending to ease back from above 7 per cent to the bank's target range of 4.5 per cent to 6.5 per cent.

Then came the disappointment of a token drop in the penalty Lombard lending rate, a new ERM crisis, and renewed criticism of the Bundesbank's lack of sensitivity to its European partners.

Mr Dietrich Beier, chief economist at Berliner Bank, yesterday defended the Frankfurt monetarists. If the outside world wanted to blame the Bundesbank for the breakdown of the EMS, then "it can also blame Germany for unification."

Few, least of all German economists, appreciated the scale of the difficulties with unification at the time. But it is clear that while the rest of the industrialised world is struggling with a "normal" cyclical recession, the slump in Germany has been compounded by the cost of making good structural distortions incurred by unification.

The Bundesbank will use some of the time and room it has for manoeuvre to continue to chip away, at its own pace, at interest rates. But it can also be counted on to crack the whip over federal, regional and local governments to keep the spending cuts coming.

Little wonder Mr Schlesinger yesterday declared himself "extraordinarily grateful" to Bonn for taking the initiative in calling for last weekend's most fruitful meeting.

German industry braces for stronger D-Mark

By Christopher Parkes in Frankfurt and Ariane Genillard in Bonn

GERMAN INDUSTRY expects to take one step backward, followed, possibly, by two steps forward as a result of the weekend shakeout of the European monetary system.

But yesterday, labouring under the twin burdens of recession and restructuring, it was more concerned with the first stage of the process than the longer-term possibilities.

Daimler-Benz, for example, which generates well over 20 per cent of its sales among its European neighbours, warned of a marked increase in exchange rate risks for international groups like itself. Any revaluation of the D-Mark against EMS currencies would tend to depress the group's profit position, it said.

The VDMA engineering industry association welcomed weekend efforts to save the system from complete collapse but complained that the loosening of fluctuation bands had deprived its members of a useful basis for calculations.

"We need stable exchange rates because we have long development times," a spokesman said.

Economists expected an early but modest effective revaluation of the D-Mark against the French franc, which would damage German exporters' competitiveness initially. Some 17 per cent of all German sales abroad go to France.

However, economists suggested, that would eventually be offset by increased demand as customer countries spurred economic growth by reducing their domestic interest rates.

At the same time, the reduction in German import prices, implied by a D-Mark with improved buying power, could encourage the Bundesbank to continue cutting its rates, and thus bolster internal demand.

Most eyes were on France, where Mr Dietrich Beier, chief economist of the Berliner Bank expected a devaluation of "5 per cent but not more." This is the engineering industry's most important single export market, accounting last year for sales of DM12bn (£4.64bn), 10.3 per cent of the sector's business outside Germany.

The French industry was also highly competitive, and with a greater relative price advantage, might win market share in Germany, the spokesman added. Italian manufacturers, too, could benefit from a D-Mark revaluation.

Mr Bodo Böttcher, head of the ZVEI electrical and electronics industry association, said if his members wanted to hold on to their European market shares, they could only do it at the cost of reduced profits. The need for hedging measures to cover currency risks would also increase costs.

The VDA, representing motor vehicle makers, warned of "considerable injury" to sales prospects in France, which absorbs 11 per cent of German car exports.

But the benefits do not flow only one way – out of Germany. Daimler, for example, which has D-Mark sales in France of more than DM2bn, also buys DM1.5bn worth of French goods each year.

And not all industry representatives saw the future as black. There was widespread relief that the structure of the EMS, although greatly loosened, remained intact with the prospect of a return to closer links in the future.

The BDI federation of German industry said the central idea of creating a European zone of stable exchange rates had been brought into question. However, Mr Reinhard Kudis, the federation's senior economist, felt the gloom had been overdone. "A revaluation of the D-Mark is unrealistic and is only the result of temporary speculation," he said.

The DIHT association of chambers of commerce agreed. "Further exchange rate developments within the EMS certainly do not need to be dramatic," it said in a statement. "Negative consequences for German exports as a result of a further revaluation of the D-Mark are by no means unavoidable."

Mr Michael Fuchs, representing wholesalers and exporters, said he did not expect the pressure on the French franc to last long. "Given the weaknesses in the German economy at present, we could even see the exchange rate reversing in favour of the franc in two or three months," he said.

Bankers, however, were more sceptical. Mr Eberhard Martini, president of the federal banking association, said the widening of the ERM fluctuation corridors was a "second best" solution. Realignments, in accordance with the rules of the EMS would have been better, but this solution had been avoided because in many cases it would have meant a devaluation, he said in a radio interview.

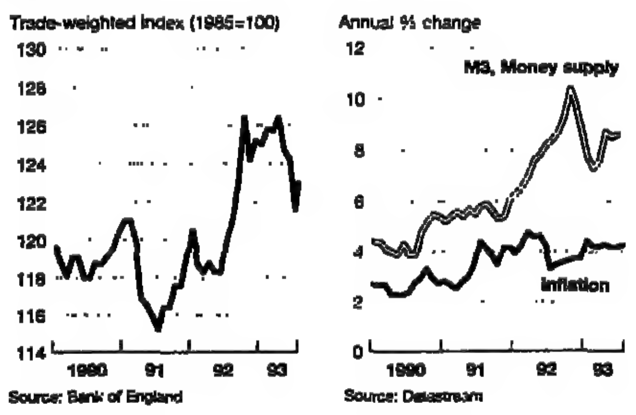
A formal statement from his association noted that the EMS had "above all, not collapsed." But the existence of the EMS could only be guaranteed if all members persisted with policies aimed at maintaining monetary stability and consolidating budgets. Only then would plans for European economic and monetary union have a realistic chance.

The Bonn economics ministry yesterday announced an unexpected fall in industrial output in June, following a sharp downward revision of provisional growth figures for May, writes Christopher Parkes.

Total production last month was 1.5 per cent lower than in May, when industry recorded 0.7 per cent month-on-month growth, corrected from 1.2 per cent.

The June figure suggests that there is some way to go before government and Bundesbank claims that the recession may be drawing to a close can be substantiated.

Germany



Stalwart Spain suffers sense of 'betrayal'

By Peter Bruce in Madrid

AT SOME point during the crisis talks on the future of the European exchange rate mechanism in Brussels over the weekend, the Spanish representatives threw six years of hard monetary battle to the wind and asked for the system to be suspended.

The anger, frustration and desperation of a strongly pro-European government which has had to swallow three devaluations since last September (one in the middle of a general election) was being openly spat out over the negotiating table.

Perhaps the call for a suspension of the system was just a threat but it was, for Spain, an extreme one. Spain has traditionally been one of the most enthusiastic supporters of political and economic union.

But more than one Spanish minister has in the past expressed dismay at the support given to the French franc by the Bundesbank while the peseta has been left to suffer at the hands of speculators.

By late last week, with the peseta again under attack, the Spanish were showing clear signs of pique.

"We don't want to leave the system but if we do they might as well stop calling it European," snapped an official in the prime minister's office.

But for all the irritation, Spain was not going to walk away from the ERM on its own. Prime minister Felipe González, always hard put to change his mind about changes of policy or personnel, has invested practically all his political credibility in first taking Spain into the EC in 1986 and then locking it in there by joining the effort to achieve monetary union.

Circumstances may yet force the issue, but it is hard to imagine Mr González suddenly expounding the virtues of a free floating peseta and monetary independence should the ERM truly collapse.

But Spain also fears a free float because it distrusts its own capacity for price and exchange rate discipline.

> 'We don't want to leave the system but if we do they might as well stop calling it European'

Madrid has been able to use the discipline imposed by the former tight fluctuation bands in the ERM to attract billions of dollars of new investment.

At the end of last year the country had external debts of about $78bn and its economic managers see every tumble of the peseta (now trading some 38 per cent lower against the D-mark than it was a year ago) as a new rung on the repayment treadmill.

"We need capital to develop," says the boss of one of the country's biggest companies. "We have to keep the cost of that capital down as low as possible."

Not all the voices reaching Mr González say this. While most continue to press for fiscal virtue next year and for only slow cuts in interest rates, some cabinet colleagues want growth even at the expense of inflation.

"What the decisions in Brussels (widening the currency fluctuation bands) mean for Spain is that we have delinked from the anti-inflationary credibility of the Bundesbank," says Mr Jaime de Pinies, chief of research at the merchant bank, Santander Investment.

"The Spanish monetary authority will now have to go and earn that credibility on its own."

That is the one side of the argument – that interest rates should fall only slowly (and certainly not at today's regular Bank of Spain auction of certificates of deposit) and the 1994 budget, due in late September, should be restrictive and credible. Public spending cuts would deepen the recession but could rapidly improve both the current account and public sector deficits.

Mr González has already promised big cuts and, although he is also trying to sweet-talk the trades unions into signing a long-term wages deal, he has refused to exclude social services from fiscal surgery in next year's budget. The intention is good but this year's budget was also supposed to be tight and spending is currently more than Pta1,000bn (£4.8bn) over target.

Then there is the other argument. If interest rates fall sharply, the dramatic growth in unemployment – currently a record 22.2 per cent – might be brought to a quick stop. Mr José Borrell, the minister of public works, is said to favour growth over the fight against inflation and is a favourite of Mr González.

Whatever happens Mr González will have little trouble imposing his will. Since winning the general election on June 6, he has cleared his cabinet of left-wingers and placed his trusted and combative former finance minister, Mr Carlos Solchaga, in charge of the parliamentary party.

He has also replaced his left-wing chief of staff with the former chief of the revenue service, Mr Antonio Zabalza.

The consensus is that the cautious voices will prevail and that Mr González will agree to bring down interest rates slowly and not rush for growth. For now, he is his own man.

Companies make concessions to secure worker flexibility

Steel unions to have board seats in US

By Richard Waters in New York

HALF the steel workers in the US will have representatives on company boards in return for more flexible working practices, if deals at two of the biggest steel companies are ratified.

Bethlehem Steel, the country's second largest producer after USX, and National Steel, the fourth biggest, reached initial agreement with the United Steelworkers of America over the weekend. These new, six-year deals would be double the length of previous labour agreements in the industry.

The agreements are similar to those already completed between the union and two other producers, Inland and LTV. These have been ratified.

The new accords in all would cover some 50,000 of the country's 100,000 steelworkers.

Under both the Bethlehem and National deals, to be ratified within coming weeks, union members would be able to appoint a representative to the board and participate in joint committees with managements "at all levels of their company, right down to the shop floor," the union said. These committees, known as local boards, would participate in all decisions affecting their area of work, including capital spending and planning, the union said.

Pension benefits would also be raised and health care benefits frozen. The union would be given a lien on some of the companies' assets to assure these benefits were maintained, the union said.

In return, steelworkers would agree to work more flexibly and be trained in a wider range of skills to make this possible. Also, they would receive no pay rise until August 1995 when the average hourly wage of $13.69 (£9.13) would be raised by 50 cents. They would also receive up to $3,000 each in bonuses, $1,000 of which to be linked to company profitability. The wage deal would be subject to renegotiation after only three years.

Bethlehem refused to comment on the deal, before it is put to the workers' vote, beyond saying: "It assures an uninterrupted supply of steel to our customers for six years. There are provisions which allow an increase in productivity, and which will result in a closer partnership with our staff."

Preliminary discussions between the union and USX broke down this year. The current USX labour agreement is not due to expire until January.

Decision time in Mideast 'fast approaching'

By Mark Nicholson in Cairo and Julian Ozanne in Jerusalem

MR WARREN Christopher, US secretary of state, yesterday said that the violence in southern Lebanon last week had illustrated the price of failure to make progress in the Middle East peace talks. He warned the participants that "decision time is rapidly approaching".

Speaking in Alexandria after a two-hour meeting with President Hosni Mubarak of Egypt, the secretary of state said the intense Israeli shelling of southern Lebanon and Hizbollah's raids into northern Israel had served as a "reminder to all parties that the Arab-Israeli negotiations can quickly deteriorate if we do not take this moment for peacemaking".

Mr Christopher's warning appears designed to put pressure on all participants to the talks - Israel, Syria, Jordan, Lebanon and the Palestinians - not to allow the Israeli bombardment to preclude immediate movement in the deadlocked peace talks.

In Jerusalem, however, both Israeli and Palestinian officials were pessimistic about chances of a breakthrough in their negotiations during the secretary of state's visit. Several members of the Palestinian delegation to the peace talks, including Mr Haider Abdel Shafi and the People's party, said they would boycott Mr Christopher's visit because the US continued to back unacceptable Israeli proposals.

Even those Palestinians who plan to meet him today said they did not expect a breakthrough on the two fundamental obstacles: Palestinian control over Arab East Jerusalem and territorial jurisdiction over the settlements in the Israeli-occupied territories during an interim period of self-rule.

For its part, Israel is urging Mr Christopher to concentrate on the Syrian track of the peace process, which focuses on prospects for an Israeli withdrawal from the occupied Golan Heights. Israeli officials yesterday continued to promote the view that the crisis last week could be turned into an opportunity to focus on stalled talks over the Golan Heights.

Mr Christopher said yesterday that, as "partner" in the talks, the US was "prepared to stay the course".

The Lebanese government, meanwhile, yesterday decided to send troops from the Lebanese army into southern Lebanese villages under the control of the United Nations Interim Force in Lebanon. Lebanese officials said the move was designed to "preserve people's security" in villages along the north of Israel's self-declared "security zone" inside Lebanon.

The deployment appears to be a gesture to bolster the "understanding" which followed a US-brokered ceasefire in the Israeli bombardment on Saturday and in which, despite its protestations to the contrary, Hizbollah appears to have undertaken to stop firing Katyusha rockets into northern Israel.

However, the movement of Lebanese troops will not constitute an attempt to disarm or contain Hizbollah, officials in Beirut said.

Mr Rafik al-Hariri, Lebanon's prime minister, has repeatedly said he cannot act against what he calls the "Lebanese resistance" while Israel retains a presence inside Lebanon's borders.

● Israel said that more of the 400 Palestinian deportees stranded in Lebanese no man's land for eight months would be eligible to return in September, taking the number of deportees to have returned to around 200, Reuter reports from Jerusalem.

TENS OF THOUSANDS of Romanian coal miners (picture above) began an indefinite strike yesterday after the government had refused to give in to demands for big pay rises, Virginia Marsh reports from Bucharest.

All but a few hundred of the 43,000 miners in the Jiu Valley, which produces more than 90 per cent of the country's black coal, joined the strike, the industry ministry said.

The miners, who led anti-reform riots in Bucharest in 1990 and 1991, are demanding an average monthly wage equivalent to nearly $400 (£268.40), four times the national average, and lower income tax.

Mr Nicolae Vacaroiu, prime minister, said the state did not have the funds to meet the demands. It would be unfair to approve "over the top" pay awards, given that miners already earned more than 90 per cent of the population.

Mr Vacaroiu, who met miners' leaders last week, refused to go to the Jiu Valley to continue negotiations after unions had failed to appear for scheduled talks in Bucharest.

NEWS IN BRIEF

Former Eni chief arrested in Rome

MR Alberto Grotti, former deputy chairman of Italy's state-owned Eni energy and chemicals group, was arrested in Rome yesterday on the instructions of Milan magistrates investigating political corruption, writes Haig Simonian in Milan.

Mr Grotti's arrest, on allegations of illegal political funding, is the latest in a string of detentions linked to investigations into the former Enimont chemicals joint venture between Eni and Montedison, the chemicals arm of the Ferruzzi group.

Last week magistrates warned eight senior politicians and former party leaders they were under investigation for alleged political corruption involving Enimont. According to leaked testimony from two former Ferruzzi executives, the company paid about L135bn (£56m) in kickbacks to ensure favourable treatment when Enimont was established and when it was wound up in late 1990.

Egyptian oil investment

The International Egyptian Oil Company (IEOC), a subsidiary of Agip of Italy, will invest $2.3bn (£1.54bn) in oil and gas development projects in Egypt over the next four years, the Middle East Economic Survey (Mees) reported yesterday. Reuter reports from Nicosia.

The specialist newsletter quoted Mr Hamdi El-Banbi, Egyptian oil minister, as saying the new investments would be used for maintaining output levels from existing fields and developing new finds, especially gas.

Mees said some of the main oil producing fields, operated by Petrobel, a joint venture between IEOC and the Egyptian General Petroleum Corporation, were ageing and needed maintenance work to increase recovery yields.

Mees also reported that the return of Iraq to world oil markets would probably be delayed because of Baghdad's attempts to link oil talks with UN weapons negotiations. However, Iraq's resumption of oil exports was not totally ruled out, it added.

Apple in BellSouth deal

Apple Computer said it had signed a deal with BellSouth Corp's mobile systems group to offer wireless communications products and services based on Apple's Newton technology, Reuter reports from Atlanta.

Apple said BellSouth would provide wireless messaging through its paging network for Newton-based products.

In addition, BellSouth said it intended to work with Apple to "investigate market opportunities for a series of wireless communications products and services based on Newton".

Separately, Apple said it signed a deal with Sprint Corp as primary contractor and British Telecom North America Inc to provide network carrier service in North America for Apple's future on-line information services. Under the Sprint-BT deal the companies would provide, in the US and Canada, a key component of the new services being developed by Apple Online Services.

Tanzania aligns currency

Tanzania harmonised its exchange rates yesterday bringing the central bank's "official" local currency rates into line with market-determined rates offered by commercial banks, Reuter reports from Dar es Salaam.

A Bank of Tanzania statement said the official rate, previously used for a range of government imports, western aid and items such as oil, would conform with market rates used by the private sector since last year.

Angolan mining hit

Angola's state diamond company Endiama said the occupation of diamond areas in the north-east by Unita rebels had cost it 50 per cent of production in the key Lunda Norte province, Reuter reports from Luanda.

Company officials, quoted by the official news agency Angop, said only 20,000 carats were being produced monthly in the province, half the level before Unita took over and sabotaged important mining areas.

Tutu seeks foreign force to restore peace in S Africa

ARCHBISHOP Desmond Tutu yesterday called for foreign peacekeepers in South Africa as the body count from one of the bloodiest weekends in the transition from apartheid to democracy neared 100, Reuter reports from Johannesburg.

A police spokeswoman said 89 people were killed between Friday night and yesterday morning in factional fighting which raged through the Johannesburg townships of Tembisa, Tokoza, Katlehong and Vosloorus.

Police in Natal province said six people were killed over the weekend, bringing to almost 600 the death toll in the month since democracy negotiators named April 27 as the date for the first non-racial election.

Archbishop Tutu, a Nobel Peace Prize winner, said the slaughter "demonstrated beyond doubt" that South Africans were incapable of restoring law and order themselves.

"We need to appeal to the international community to send in, as a matter of urgency, a corps of police officers experienced in handling civil turmoil," he added.

Negotiators at democracy talks outside Johannesburg expressed horror at the slaughter, which threatens to wreck progress to democracy.

Mr Nelson Mandela's African National Congress urged the conference to agree to form a joint peacekeeping force, representing black and white South African political groups.

"We should have a joint peacekeeping force, to be installed within a matter of weeks," said Mr Cyril Ramaphosa, ANC chief negotiator.

He said the ANC wanted to discuss Archbishop Tutu's plan with him. The more radical Pan Africanist Congress said it had been advocating international involvement for a long time.

Black parties distrust the white-led South African police, despite its claims of impartiality in township wars that have claimed more than 9,000 lives in three years.

Rail authorities announced yesterday they were temporarily suspending trains serving the volatile townships east of Johannesburg, to protect commuters and property.

Political leaders expressed frustration and helplessness over the second most bloody month of fighting since President F W de Klerk lifted apartheid clamps in early 1990.

Killings highlight Russia conflict

By John Lloyd in Moscow

THE MURDER of two senior Russian officials, one of them a deputy prime minister, has brought home to the Russian public the increasingly bitter struggle between two ethnic groups in the north Caucasian region.

Mr Viktor Polyanichko, temporary governor of the areas of Ingushetia and neighbouring North Ossetia, was murdered when gunmen fired on his car late on Sunday afternoon. Major General Anatoly Koretsky, commander of the Russian forces in the area, was also killed.

Mr Sergei Shakhrai, deputy Russian prime minister for nationalities, and General Pavel Grachev, defence minister, immediately flew to the Ossetian capital of Vladikavkaz for talks with local leaders.

Mr Polyanichko, a former senior communist official in Azerbaijan whose appointment as special governor of the region had sparked controversy among democrats in Russia, had emergency powers to rule in the region as increasingly violent conflict followed efforts by Ingush families deported from their homes to resettle in areas of South Ossetia.

A state of emergency was declared last week by President Boris Yeltsin, confirmed by parliament on Saturday. Thousands of refugees from both sides have fled their homes in the wake of what Mr Ruslan Aushev, president of Ingushetia, has called "planned ethnic cleansing" of Ingushes.

Both sides blame the other for the murders. The press centre of the North Ossetian government claimed the area where Mr Polyanichko was killed was controlled by Ingush forces.

The Ingush president's press secretary said last night that "the blood of these officials are on the hands of those who tried to stop the Ingush returning to their traditional homes".

EBRD urges reform in banking

By Gillian Tett

RADICAL reform of the banking sector must be a priority for east European governments and western donors seeking to implement economic change in former Communist countries, Mr Mario Sarcinelli, vice-president of the European Bank for Reconstruction and Development, said yesterday.

Commenting on the EBRD's latest quarterly review, which showed how recession in the west and last year's drought had contributed to a deteriorating foreign trade balance in most of the region, Mr Sarcinelli said banking structures were ill-equiped to finance the reform process.

Hungary, Poland and the Czech and Slovak republics had gone furthest in implementing banking reforms, but most east European banks still lacked western-style auditing practices, had little understanding of risk control, and were burdened by huge levels of bad debt, he said.

The EBRD declined to issue figures showing the scale of the problem, claiming the statistics were too unreliable and politically sensitive. But bank officials estimate that bad debts represent more than 60 per cent of the balance sheet in some of the largest east European banks.

Mr John Fleming, chief economist of the EBRD, added that most east European countries still lacked effective bankruptcy laws so enterprises were continuing to trade and receive bank funding, although they were technically insolvent. "There is clear evidence of a big build-up in many countries of inter-enterprise arrears."

The banks now need recapitalisation and the introduction of competition, ideally through a process of privatisation. The EBRD plans to increase its stake in east European banks, such as Poland's recently privatised Wielkopolski Bank Kreditowy in which the EBRD has become a majority shareholder.

It also plans to increase its provision of credits through local financial intermediaries, in an effort to spread credit risks and boost local financial sectors.

Taiwan charts uncertain course over China

Divisions widen between business seeking closer ties with the mainland and cautious political groups, writes Tony Walker

TENSIONS are emerging between the Mainland Affairs Council, responsible for charting Taiwan's policy towards Beijing, and the unofficial group established to conduct negotiations with China.

"We have our foot on the brake, while the Straits Exchange Foundation has its on the accelerator," says Mr William Li, director of the MAC.

His comment reflects broader divisions in the community - between business which, by and large, wants closer ties forged across the Taiwan Strait and political groups, such as the opposition Democratic Progressive party, which counsel against a further slide into China's embrace.

Just a few months after historic talks in Singapore in April between Mr C F Koo, the millionaire head of the SEF, and his Chinese counterpart, Mr Wang Daohan of the Association for Relations Across the Taiwan Strait (Arats), Taiwan appears like a startled rabbit caught in a car's headlights, uncertain which way to move.

For the moment, Taipei is unlikely to make further gestures in the direction of Beijing, beyond maintaining the dialogue started in April.

Mr Jason Hu, chief government spokesman, says a Beijing proposal that Taiwan allow direct trade and travel should be treated with caution. "These are some of the final chips in our hands," he says. "Why play them now?"

Business, on the other hand, is becoming restless, asking why it should be subjected to the added cost and inconvenience of channelling its dealings with the mainland through third parties, namely Hong Kong. The SEF, set up in February 1991 as the unofficial intermediary between Beijing and Taipei as neither recognises the other, has become a conduit for these concerns.

Mr Ching Ping Lee, SEF deputy director, notes that since an absolute ban on visits by Taiwanese to the mainland was lifted in November 1987, trade has soared. Exports are expected to total US$9bn (£6bn) this year, and direct utilised investment exceeds US$2bn, with many times that figure committed to new projects. Mr Ching estimates that about 12,000 Taiwanese companies are represented in China.

He criticises the MAC's "go-slow policy" as impractical, and says his body favours more frequent contact with Beijing and at a higher level.

"Our aim is to reduce tensions and build up mutual trust," says Mr Ching, who visited the Chinese capital in June for talks following the Wang-Koo Singapore meeting.

Taiwan's President Lee Teng-hui set the tone for the latest phase in an intriguing relationship when he said in May that it was important to maintain peace in the Taiwan Strait, encourage close interaction across the divide and build mutual trust. "To go from mutual trust to mutual recognition that each government is a legitimate entity would be a major advance," he added.

Beijing, for its part, seems anxious to force the pace. Since elections last year brought the independence-committed Democratic Progressive party within sight of gaining power in a democratising Taiwan, the Chinese have accelerated efforts to engage the Taiwanese in discussions about the future.

Opinion polls, which show that more than 20 per cent of Taiwanese favour independence from the mainland (up from the usual 10-12 per cent), appear to have concentrated minds in Beijing, where leaders had traditionally maintained there was plenty of time to bring about reunification. For the moment, it seems, the political tide in Taiwan is running against Beijing; although the meshing of economies across the Taiwan Strait provides a powerful countervailing force.

Officials of the DPP, which gained 51 out of 161 seats in Taiwan's legislature with 31 per cent of the popular vote in the recent election, are adamant reunification is out of the question. They want a plebiscite to allow Taiwanese to pronounce on their future.

Mr Chiou Jen, the DPP's deputy secretary-general, cautions against the Wang-Koo talks, "not because China has a bad attitude, but simply because no consensus exists in Taiwan in support of those talks".

Mr Chiou is correct when he talks about lack of consensus within the ruling Kuomintang, which clings to the notion that its remains the legitimate government of all China. Some KMT members, however, make little secret of their sympathies for the independence option espoused by the DPP.

The MAC, meanwhile, has been cast in the role of buffer in what could become an acrimonious and divisive debate. Mr Li insists any step towards a "united China" must be gradual. He is candid about the political dangers. "If we go too fast the government may lose the next election," he says.

He believes that Mr Deng Xiaoping, China's senior leader, is a barrier to swift progress because of his outdated ideas about reunification. Mr Deng has talked about a "one China, two systems" special administrative region solution for the Taiwan issue, similar to the one proposed for Hong Kong.

Among conditions laid down by Taiwan for progress in the Wang-Koo process are that Beijing renounces the military option to bring about reunification, and that it refrains from barring Taipei's entry to international organisations. Taiwan is presently engaged in a "noisy reconnaissance," as one western official put it, to gain entry to the United Nations.

The MAC and other elements of Taiwan's propaganda machine have taken to issuing warnings about the dangers to the local economy of becoming too dependent on the mainland.

A recent MAC publication warned that "with the rapid increase in Taiwan enterprises investing across the Taiwan straits...the threat that the local industrial sector will be hollowed out looms large." It cited a study which showed that, in 1986, manufacturing accounted for 39.7 per cent of GDP while the service sector's share was 46.82 per cent. By the second quarter of 1992, manufacturing had shrunk to 33.66 per cent against 54 per cent for services.

The propaganda also falls back on the perceived evils of communism. "Communist Chinese leaders love to boast that what they practise on the mainland is socialism with Chinese characteristics," wrote one commentator recently. "We in Taiwan sincerely hope there will be more and more Chinese characteristics, and less and less socialism on the Chinese mainland."

Car sales hit as Japanese cut spending

By Robert Thomson in Tokyo

NEW CAR sales in Japan in July slipped 10.8 per cent from those of a year earlier, while sales of imported vehicles were down 11.2 per cent, reflecting the lack of consumer confidence in an economy still apparently in decline.

July is traditionally a good month for car dealers, as it comes just after workers have received bonuses and just before annual summer holidays, but the Japan Automobile Dealers' Association said sales had fallen by more than 10 per cent for four consecutive months. Except for March this year, when they rose 1.7 per cent, sales have been down year-on-year every month since July 1992.

The period of double-digit drops is the longest since 1974, and also reflects the curbing of corporate capital spending. Lorry sales fell 9.3 per cent, while those of buses fell 11.6 per cent.

Jada officials said the recent appreciation of the yen had further bruised consumer confidence, which has been weakened by a cut in new jobs and in overtime work.

Meanwhile, the Co-operative Credit Purchasing Company, established by Japanese banks this year to buy their non-performing property loans, announced that it had purchased 14 loans with a face value of Y64.2bn ($605.7m) for a total of Y26.1bn during July.

The CCPC is paying less for the collateral rights it purchases, suggesting that property prices are still falling and that banks are bringing in loans of lower quality. By selling the loan rights to the CCPC, banks are able to write off their exposure.

But the CCPC is having difficulty fulfilling its stated aim of putting a floor under property prices by announcing details of collateral sales. Of the Y502.58bn in outstanding loans purchased by the agency, only Y920m has so far been recovered.

Hard landing in sight for Japan-US air feud

Michiyo Nakamoto previews aviation rights talks seen as threat by Tokyo carriers

MR Susumu Yamaji has been busy for the past year on a personal mission to save his company and the Japanese airline industry from what he sees as the adverse effects of a US-Japan aviation accord.

As the chairman of Japan Air Lines, the country's main international carrier, Mr Yamaji has travelled widely and used his contacts and influence to deliver his message that the bilateral accord places Japanese carriers at an unfair disadvantage.

His efforts will be put to the test this week when negotiators from the two countries meet in Washington for a second round of talks that will seek resolution of a long-festering dispute.

On the agenda are two thorny items: the number of landing slots Japan gives to US carriers at the new Kansai International Airport and the use by US carriers of their "beyond rights" – the right to fly from the US to Japan and beyond to a third country.

At stake is a large and lucrative market for international air travel to and from Japan, in particular to the Asian Pacific region, but possibly including travel to and from Europe in the future.

The US wants a much larger number of landing slots at Kansai airport than Japan is prepared to give. It also believes that the beyond rights US carriers are entitled to under a bilateral aviation accord should not be restricted.

At stake is a large and lucrative market for air travel to and from Japan

The aviation accord, which was agreed in 1952, gives each side the right, among others, to fly over the other's territory and to carry their nationals to the other country. A supplementary right provides for the carriers of one country to fly to the other country and from there to a third destination. It is this one that the Japanese want restricting.

There is already an oversupply of air travel services that is hurting the profitability of Japanese airlines, Japanese aviation authorities say. As primary carriers, domestic airlines should have first claim over flights between Japan and other countries. US carriers flying mostly Japanese travellers out of Japan are poaching, they say.

Furthermore, by pricing their flights at a lower level than that which Japanese carriers can afford to offer, US carriers are threatening to put Japanese airlines out of business.

Based on that view, the Japanese authorities tried to get Northwest Airlines to limit the number of passengers getting on at Osaka in its New York-Osaka-Sydney flights to less than 50 per cent of the total.

They then rejected a United Airlines' application to extend its New York-to-Tokyo flights to Sydney, prompting United to file a complaint with the US transport department. Threats of sanctions and counter-sanctions were exchanged across the Pacific.

Both sides have refrained from taking further action that could raise tensions but the first bilateral meeting last October to tackle the issue ended inconclusively. For the US industry, which is losing money in its domestic market, the market centred on Japan is enticing, given that Asia is one of the few growth markets in world air travel and the US carriers are more cost-competitive than Japanese ones.

Ashley Ashwood

Susumu Yamaji: mission to save industry from accord's effects

Japan, however, needs to keep its international market closed to third parties to help restore domestic carriers to health. JAL reported a Y53.8bn (£340.5m) pre-tax loss in the year to March while All Nippon Airways saw profits plunge 34 per cent.

To protect the future viability of its airlines, Japan wants to keep out the kind of excessive competition that is hurting the profitability of US carriers in their domestic market.

For that, it needs an aviation accord modelled on the Bermuda 2 agreement between the US and the UK which restricts capacity and provides for a balanced sharing of that capacity, Mr Yamaji believes.

Protection for the Japanese airline industry would not benefit Japanese airline users, however. By providing Japanese airlines with a regulated market in which competition is kept to a minimum, the Japanese authorities would be allowing them to charge high prices and make profits without taking fundamental steps to improve their international competitiveness, according to Mr Takatoshi Ito, professor of economics at Hitotsubashi University.

"What has ruined the Japanese airline industry is the over-protective administration of the ministry of transport ... and the dependence of the management of airline companies on regulation," Mr Ito wrote in a recent magazine article.

For Japan to ask that US-Japan market share in air traffic be pre-established in a bilateral aviation accord, is as much a results-oriented policy as the market share targets proposed by the US, which Japan so firmly rejects, he says.

Moslems blamed for Thai arson attacks

By Victor Mallet in Bangkok

THE THAI army has blamed Moslem separatists for a series of arson attacks on Sunday, in which 33 schools in southern Thailand were set on fire.

No one was hurt in the fires, which were lit before dawn, but Thai newspapers said at least 12 of the schools were destroyed or badly damaged. A local government office and the homes of teachers and an official were also hit.

Gen Kitti Rattanachaya, the regional military commander, accused a hardline faction of the Pattani United Liberation Organisation (Pulo) of having set the fires.

"I was stunned," Gen Kitti told local journalists. "I [had] just told the prime minister that the situation in the region was improving."

Thai Moslems, concentrated in the south, make up only about 4 per cent of the country's population. Religious freedom is guaranteed by the constitution, but Moslems frequently complain about the influence of the Buddhist majority, especially in education.

Pulo has campaigned sporadically for the secession of Thailand's five southernmost provinces, and was blamed for a bomb explosion at Hat Yai railway station last year in which three people were killed. Several schools were set alight on a general election day in September.

The latest incidents could strain relations between Thailand and Malaysia, as Thai officials say that Pulo activists receive support from Moslem fundamentalists in Kelantan on the Malaysian side of the frontier.

Last month, however, Thailand, Indonesia and Malaysia launched a "growth triangle" designed to increase cross-border trade and investment between southern Thailand, northern Sumatra in Indonesia, and the northern part of the Malaysian peninsula.

Singapore restricts Economist circulation

By Victor Mallet

SINGAPORE yesterday imposed restrictions on the circulation of The Economist magazine, the latest in a series of moves against the media by the island's notoriously sensitive government.

In a statement, the Ministry of Information and The Arts said the government was restricting the circulation of The Economist, which is 50 per cent owned by the Financial Times, to its current level of 7,500 and would reduce it progressively unless the magazine published a letter relating to a story about Singapore which appeared in June.

The story concerned the trial of five people accused of breaking secrecy legislation by publishing a government estimate of second quarter gross domestic product growth before it was officially released.

Headlined "Psst – wanna see a statistic?", the article went on to discuss the travails of politicians who oppose the ruling People's Action party.

Singapore's declared reason for restricting The Economist was "for refusing to print a reply from the government", but the authorities are also incensed by the magazine's occasional levity, or what one senior official called the "mocks and taunts" in its pages. The Economist did print two of Singapore's letters replying to the article, but a sentence was omitted from one of them.

Yesterday The Economist said it declined to print a third letter because it did not want to publish two letters from the same person and the same organisation in one issue. Last night Mr Bill Emmott, the editor of The Economist, said he did not rule out publishing the letter in a future issue.

He told the Singapore government last month that he might transfer the magazine's printing contract from Singapore to its other regional site in Hong Kong.

Flour mill to be built in Sumatra

By William Keeling in Jakarta

A $100M FLOUR MILL is to be built at Belawan in North Sumatra, taking advantage of the Indonesian government's decision last June partly to deregulate the flour sector.

Indonesia is one of the world's largest importers of wheat, having bought more than 2m tonnes last year.

The country is also home to what is reputed to the world's largest wheat-miller, Bogasari Flour Mills, a subsidiary of Salim Group, which has a monopoly in the country's flour sector.

The group is a major consumer of flour, with its subsidiary Indofood Group enjoying a 90 per cent share of Indonesia's instant noodle market.

The new mill, with capacity of 1,000 tonnes a day, will be a joint venture of Bogasari, the Rodamas Group and ABC Group, both of Indonesia, and Gold Coin of Malaysia.

With plants at Ujungpandang on Sulawesi, and in Jakarta and Surubaya on Java, Bogasari has a capacity of about 11,000 tonnes a day.

In June, the government opened the sector to foreign investment but requires that all new ventures, domestic or foreign, export at least 65 per cent of production.

Indonesia, however, produces no wheat and the export requirement effectively closes most avenues for new investment.

Industry officials say the participation of Bogasari in the new plant's consortium reflects the limitations of the deregulation package and the continuing stranglehold of Salim Group over the sector.

The consortium is likely to argue that the plant be considered an expansion of the existing Bogasari operations and thus escape the export requirement.

Power stations to burn 'world's filthiest fuel'

By David Lascelles, Resources Editor

BRITAIN'S pollution authorities have given permission for two power stations to burn orimulsion, a mixture of bitumen and water which has been denounced by environmentalists as "the world's filthiest fuel".

The Pollution Inspectorate has issued authorisations to PowerGen, the UK's second largest private sector power generator, for its stations at Ince on Merseyside and Richborough near Sandwich in Kent.

Both stations have been burning the fuel on an experimental basis for three years to enable emissions tests to be made. But the authorisations, issued last Friday, mean orimulsion is now officially deemed to be environmentally acceptable.

Orimulsion is a proprietary product made in Venezuela and imported into the UK by a company jointly owned by Petroleos de Venezuela, the state oil company, and British Petroleum. It has the advantage of being cheaper than oil or gas, but its highly controversial environmental reputation has prevented widespread use. In particular, environmentalists have said it causes acid rain.

The UK pollution authorities have decided orimulsion is no dirtier overall than other fuels such as coal or heavy oil, and that it can be burnt without jeopardising the UK's commitment to reduce acid rain and prevent global warming.

Pollution inspectors have built up records of emissions and studied the experience of other countries, notably Canada, where orimulsion is also burnt. The tests show orimulsion emits more sulphur than oil or coal, but less of some other harmful matters.

The authorisations carry a number of conditions. PowerGen must closely monitor and report its emissions. It must also draw up a plan to install equipment at both power stations to clean up exhaust gases, though this does not need to be in operation until April 1998. The inspectorate has also set emission limits which should prevent the stations being run at full capacity.

Official stress they have attached conditions to the authorisations as part of a general tightening of controls on power stations, not because they think orimulsion is dirty.

The authorisations will anger the environmental lobby which has campaigned strongly against orimulsion. But they also come at a sensitive time for the coal industry which is battling to retain a share of the power generation market. British Coal is due to start talks in the autumn with the generators aimed at securing additional sales of coal above the long term contracts agreed after the recent pits crisis.

Britain ratifies Maastricht as legal challenge is dropped

By Robert Rice and David Owen

BRITAIN yesterday ratified the Maastricht Treaty just hours after Lord Rees-Mogg announced that he was abandoning his legal challenge.

Ratification was completed when Sir Patrick Fairweather, British ambassador to Italy, deposited the necessary instrument at the Italian Ministry of Foreign Affairs just after 3pm.

It brought to a close an epic 15-month struggle which has exposed bitter and lasting divisions in the Conservative party.

The move which made Britain the eleventh of the 12 EC states to ratify the treaty – Germany has yet to ratify it – marked the end of the road for Tory Euro-sceptics who had fought tenaciously to kill Maastricht off.

Prime minister John Major will be hoping the government can finally draw a line under what has been an immensely damaging episode for the Conservative party.

But Euro-sceptics are already threatening a fresh revolt when the government brings forward legislation implementing an agreement to increase national governments' contributions to the European Commission in November. Eurosceptic leaders were yesterday in defiant mood with Mr Bill Cash MP arguing that Britain should not have ratified a treaty whose heart was "torn out" with the "collapse" of the exchange rate mechanism.

Mr Michael Spicer MP said it was "a matter of supreme irony that on the day that the ERM collapses we ratify a treaty whose objective is to create fixed exchange rates forever, with all the economic misery that this has been seen to entail."

Lord Rees-Mogg's lawyers said the former editor of the Times had decided not to appeal against last Friday's High Court ruling rejecting his claim that the government was acting unlawfully by seeking to ratify the treaty without parliamentary approval.

A statement put out by his solicitors said Lord Rees-Mogg's decision had also been influenced by the ERM crisis which had "effectively removed one of the key pillars to Maastricht. In those circumstances, an appeal is not necessary; indeed there is not much of the Union Treaty left standing." Lord Rees-Mogg and his main backer, Sir James Goldsmith, the international financier, had both agreed it was right to go no further.

Recession hits investment in E Europe

By Anthony Robinson, East Europe Editor

THE reluctance of UK companies to invest in eastern Europe has grown during a recession which has led a third of UK companies to cut back on their overall overseas investment, according to a study by Coopers and Lybrand, accountants and management consultants.

Only 35 per cent of 100 companies selected from the FT Top 500 surveyed by Gallup regarded central or eastern Europe as an important priority area for new investment. That compared with 85 per cent which chose western Europe and 67 per cent which picked North America or the Far East/Asia as priority areas.

More than a third of sample companies had some form of investment in eastern Europe, but a third said they would not even consider investing in the former Soviet Union.

Compensation limit 'unlawful'

By Robert Rice, Legal Correspondent

EMPLOYERS face the prospect of higher claims for compensation from victims of sex discrimination after the European Court of Justice ruled that Britain's statutory £11,000 ceiling on tribunal awards was unlawful.

The Luxembourg court ruled that the limit on compensation in the Sex Discrimination Act is in breach of European Community law.

Those who have suffered sex discrimination must be compensated in full for loss and damage suffered even if that means exceeding the current ceiling. The government will now have to legislate to remove the limit.

The court's decision was made in the second case brought by Miss Helen Marshall, a retired dietician, against her former employers, Southampton and South West Hampshire Area Health Authority. In 1986 Miss Marshall won a ruling from the European Court that she could rely on an EC directive in her action against her employers for discriminatory early retirement.

Following that decision the industrial tribunal awarded her £18,405 in compensation which included £7,710 in interest on her financial loss from the date of her dismissal to the date of the tribunal's decision. In reaching its decision the tribunal disregarded the £6,250 limit on compensation under the Sex Discrimination Act at the time. The health authority paid the capital sum but refused to pay the interest, and her case was eventually referred back to the European Court by the law lords.

Lawyers said the ruling had dramatic implications for UK employers. Mr David Pannick, a senior lawyer, said: "It is of very great significance for securing equality in the workplace."

Britain in brief

UK economy hit by losses at Lloyd's

The losses suffered by the Lloyd's of London insurance market have significantly damaged the domestic economy and the UK's balance of payments, according to a report published today.

Mr Ian Shepherdson, economist with Midland Global Markets Research, says in the report that Lloyd's losses over the last five years of more than £5.5bn are equivalent to the money lost on two or three "Black Wednesdays". He estimates Names – the individuals whose assets support underwriting – will need to find £2.3bn to fund the 1990 deficit of £2.9bn, announced in June in line with Lloyd's three year accounting system.

BT criticised by regulator

A recent British Telecom "special offer" to customers was discriminatory to competitors and must not be repeated, Oftel, the telecommunications watchdog, ruled yesterday.

BT will be obliged to agree new rules with Oftel to ensure that future special offers do not favour its business to the detriment of competitors.

House prices rise again

House prices rose for the fifth consecutive month in July, with the Nationwide Building Society's monthly index registering a 0.7 per cent increase on June's level. Nationwide said prices had risen by 4.3 per cent since the end of 1992, but were still 2.4 per cent lower than in July last year.

Hope of upturn in construction

The construction industry should see an upturn in its fortunes in the second half of this year after three years of recession, said a forecast by the National Council of Building Materials Producers. But the improved outlook depends on the government maintaining public sector investment at current levels, the Council said. The recovery in private sector activity was fragile.

Investment exceeds target

Private sector investment in Tyne and Wear Development Corporation sites exceeded its target by 43 per cent in the last financial year, according to the Corporation's annual report and financial statements. In the year to March 31, the private sector channelled £86.2m into TWDC sites alongside the rivers Tyne and Wear, against a target of £60.3m.

Indicator falls

Britain's longer leading indicator fell 0.2 percentage points in July to stand at 107.5, indicating slightly weaker economic activity.

Climbdown on education policy

By John Authers

THE government yesterday signalled a full-scale retreat on education policy, announcing a dramatic reversal of its plans for testing, publication of school league tables and content of the national curriculum.

The changes, which follow a report by Sir Ron Dearing, appointed in April to review the curriculum by Mr John Patten, education secretary, appear likely to bring an end to boycotts by teachers' unions which wrecked tests for seven- and 14-year-olds this year.

They also signalled a climbdown from several policies the government has attempted to introduce to education since 1988, and led to opposition calls for Mr Patten's resignation.

Baroness Blatch, the education minister who responded to the Dearing report on behalf of Mr Patten, who is ill, announced that league tables of school performance based on tests for seven- and 14-year-olds, planned to start this year, will be abandoned. Teachers' unions had lobbied heavily for this change, which was not covered in Sir Ron's recommendations.

The government plans to publish league tables for tests taken by 11-year-olds, which will not start on a compulsory basis until 1995 at the earliest.

Other climbdowns included restricting compulsory tests to the three core subjects of English, mathematics and science – it had been planned to introduce them across the full range of ten national curriculum subjects – and raising teachers' assessment to equal status with the tests.

In a surprising step, Sir Ron announced that he will consult employers and teachers on introducing vocational courses for 14-year-olds. Baroness Blatch denied that the move was a government climbdown: "The early architects of the system built into the system too much convolution and that has been substantially addressed by Sir Ron.

"We will be supporting that, and we will get back on to track where it was envisaged we should have been after the reforms were on the statute book in 1988."

Teachers' unions which are boycotting the tests all gave the news a cautious welcome. The traditionally moderate Association of Teachers and Lecturers is to ballot members in the new term. Mr Peter Smith, ATL general secretary, said: "Our members will need to see that the government intends to act." Mr Nigel de Gruchy, general secretary of the National Association of Schoolmasters Union of Women Teachers, hailed the decision as a "vindication of the boycott".

Mrs Ann Taylor, shadow education secretary, described the news as "a significant blow to the government's original position", and said £35m had been wasted on attempting to introduce tests this year.

London authority wants a permanent cordon, says **Vanessa Houlder**

City gets an insecurity complex

The security cordon thrown around the City of London following a devastating IRA bomb attack earlier this year should be made permanent, according to proposals by the Corporation of London.

The cordon which was introduced on a temporary basis on July 3, involves the closure of 18 roads and the introduction of eight checkpoints where police, sometimes armed, stop vehicles.

The proposal, which is part of a package of anti-terrorist measures, is controversial. Opponents argue that the move risks handing a propaganda victory to the IRA and could undermine security in surrounding boroughs. Moreover, it may disrupt traffic within and around the City.

The Corporation, the authority which oversees the planning, local services and policing of London's financial quarter, will subject its proposals to a period of public consultation. But its biggest hurdle will be convincing the government to give formal approval to the road closures. Road traffic regulations limit the period in which roads can be closed, on a temporary basis, to a maximum of 12 months.

The Corporation argues that it has to be seen to take a visible anti-terrorism measure if it is to retain the confidence of international businesses and continue as one of the world's leading financial centres.

It says that some banks, particularly Japanese and US banks, are anxious about the risk of a further attack. The Japanese Chamber of Commerce and Industry voiced its concerns in a letter written in the wake of the Bishopsgate bomb, which raised the possibility that Japanese firms would look for an alternative to London if safety measures were not improved.

Although the Corporation accepts that publicity about the "ring of steel" around the City's core may tarnish its image, it believes the damage to its image would be far greater if the City suffered another serious bomb attack.

The City will not initially attempt to persuade the government to introduce legislation allowing for the closure of the roads on security grounds.

Instead, the Corporation intends to make a case for closing the roads on environmental grounds under the Road Traffic Act. It will argue that the road closure has led to lower pollution, less traffic and greater use of public transport.

If surrounding boroughs oppose the road closures, the proposal will go to a public inquiry. The issue would be ultimately decided by Mr John MacGregor, the secretary of state for transport.

Surrounding authorities, such as Tower Hamlets, are critical of the City's decision to take unilateral action "without understanding the knock-on effect on surrounding boroughs".

Tower Hamlets is worried that it may suffer from traffic being diverted from the City and from increased car parking by people who switch from driving into the City to using the underground for the final part of their journey.

The RAC motoring organisation is sceptical about the Corporation's claim that the cordon will not create congestion around the City: "For the City to say it is confining the problems to the City is ridiculous."

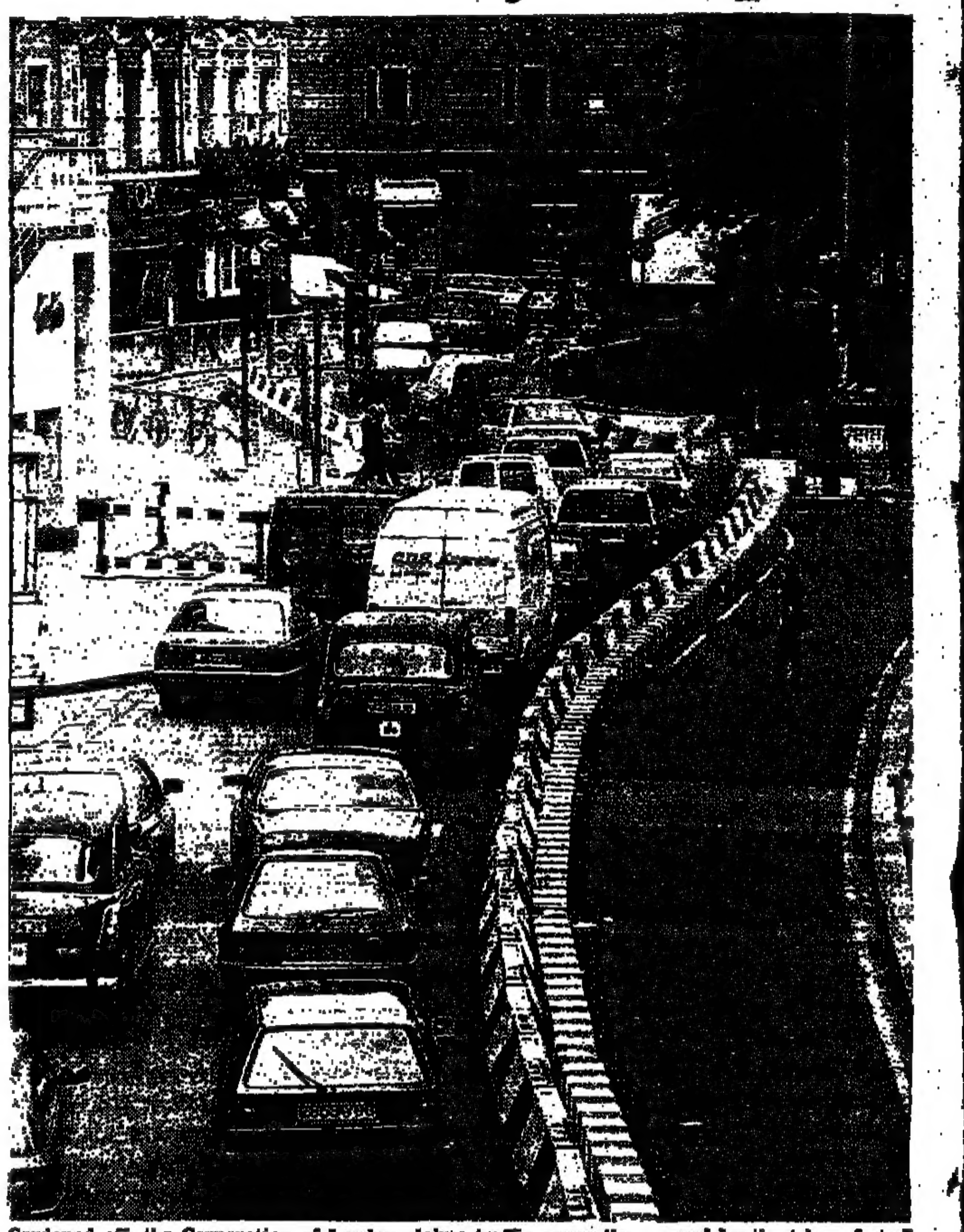
London Transport says the effect of the cordon is less disruptive than it originally thought, although buses are being delayed by up to 8 minutes for an average journey across the City.

The City police says it has not detected any detrimental effects of the increased security measures. Extra police presence on the streets and extra cameras has contributed to a fall in the crime rate by 16.4 per cent in the first six months of the year, it says.

When the time comes the Corporation believes that the relatively easy acceptance of the temporary cordon will strengthen its case for making it permanent.

Several senior politicians are not convinced. Some ministers, such as Mr Stephen Norris, transport minister, have expressed doubt about the effectiveness of the scheme.

Mr Michael Cassidy, chairman of the Corporation's policy and resources committee, argues that the City deserves special treatment because of the wealth of the businesses it is trying to protect. "Ministers have to recognise that the City is a prime target," he says.



Cordoned off: the Corporation of London claims traffic congestion caused by the 'ring of steel' outweighs the damage another bomb blast would inflict to London's status as a financial centre

PEOPLE

Bridon: high hopes for a healthy future

After nearly a year of management upheaval, largely due to illness, Bridon, which manufactures and distributes wire rope and engineered products, has found a new chief executive. He is 46-year-old American Ronald Petersen, who has lived in the UK since 1981.

The last chief executive but one, David Allday, stepped down last September because, as the then chairman John West put it at the time, "he has had to push water uphill and has had enough".

In an internal appointment, Brian Clayton took over as chief executive with the aim of "revitalising group strategy and looking for a long-term successor". Then, in February, John West stepped down as non-executive chairman because of his ill-health, to be succeeded by Derek Edwards, who, however, died suddenly last month.

Hence Clayton, 60, steps down from his executive role, as planned, but instead of becoming a non-executive director, becomes non-executive chairman. Clayton adds that the company will "in the short to medium term" be looking for one or two more non-executive directors.

Petersen, who was picked primarily for his sales and marketing skills, was previously chief executive of Insituform Group Ltd, responsible for all the non-US activities of the American parent which sells systems for the non-invasive lining of pipes.

Before that, he had worked, in North America and Europe, for Armstrong World Industries, which manufactures and distributes flooring and ceiling systems. With a total of 17 of the last 22 years spent in the UK, Petersen is characterised by Clayton as "very anglicised".

While Bridon has been the subject of persistent bid speculation, Clayton says it has all "probably been without foundation".

He says Petersen is on "a perfectly normal contract with no strings attached".

Ashley Ashwood

Jeremy Lancaster, 57, chairman and managing director of Wolseley, the world's biggest plumbers' merchant, has been appointed a non-executive director of Kleinwort Benson Group. Lord Rockley, who took over as chairman of Kleinwort in April, says that he had been looking for a successful industrialist to help fill the gap on his board following the retirement of Sir David Steel and the late Sir George Turnbull.

Lancaster, who has headed Wolseley since 1976, is well regarded in the City. Educated at Rugby and Christ Church, Oxford, he did his apprenticeship at GKN before joining the family company in 1961. In 1976 he took over from his father, Norman Lancaster; since then the company's sales have risen from £72m to £1.9bn and pre-tax profits have gone up more than 20 fold. Another sign of City approval came earlier this year when Wolseley joined the FT-SE 100 index.

■ **Paul Bennett is retiring as chairman of Aquascutum, the upmarket fashion retailer renowned for supplying outfits to Baroness Thatcher. Bennett is handing over to James Stokes, who has worked closely with him as joint managing director for the past two years.**

Bennett, 65, joined the chain in 1960 as the company's representative in Japan. He built up the Far East business from virtually a one-man operation into one of Aquascutum's most important markets. After the company was bought for £74m by Renown, the Japanese clothing company, Bennett was invited back to the UK to become chairman and joint managing director in 1991.

James Stokes, 58, trained as an accountant and joined Aquascutum in 1962. He was financial director until 1991, when he was appointed joint managing director with Bennett, and has also acted as deputy chairman of the company since 1982.

Bennett says he he has overseen the transition of Aquascutum from a "closed enterprise" to a subsidiary of an international group and feels he can now "gracefully retire".

Naylor leaves MAM for a pizza the action

James Naylor, who has been running MAM Leisure, the amusement machines business which parent Chrysalis Group has decided to wind up, is moving to City Centre Restaurants, the operation that includes Deep Pan Pizza and Garfunkels. He becomes chief executive from the beginning of October.

"The timing was absolutely appalling for me," agrees Naylor, stressing that he was approached by the restaurant group in May and had decided to go well before Chrysalis's decision to close MAM.

Naylor, 47, steps into the shoes of Phillip Kaye, who is 61, and has decided to give way to a younger man. Kaye will, however, stay on as an executive director, something Naylor claims he welcomes. "He is someone I have long admired from a distance. He has even more experience in the leisure business than I do and I think I've got a lot to learn from him." Naylor's past experience includes First Leisure, where he was joint managing director until 1988, Forte and Thorn EMI.

Kaye, who dreamed up Golden Egg and Strikes as well as Garfunkels, Deep Pan and Chiquitas, will continue to be closely involved with new business development.

Naylor's spell at MAM had only lasted a year. He came in "largely in a company doctor role, to see what could be done. When Chrysalis decided it did not want to continue underwriting the losses, it was hard to gainsay that," he comments.

Before MAM he had set up Whitegate Leisure with an ex-colleague from Columbia University MBA days, Nick Oppenheim. He parted company with Oppenheim, with whom he says he now has little contact. "An unfortunate act of timing," is how he describes the decision to set up Whitegate just as the 1980s boom was ending. Kaye on the other hand is not concerned by the Whitegate experience: "We did investigate it very carefully and we concluded that no blame attached to him."

Departures

■ **Paul Cassidy, md of HEYWOOD WILLIAMS' UK glass division, has left the company following the sale of much of the division to Pilkington earlier in the year.**

■ **Gianfranco Migliardi has resigned as joint md of RENISHAW, but remains md of the Italian subsidiary.**

■ **Gerry Townshend, market development and public relations director Europe for LAWSON MARDON GROUP, has retired. He is a former chairman of the BSI PKM/packaging, programming and policy committee and remains chairman of the board of the Institute of Packaging and president of the World Packaging Organisation.**

■ **Roger Graham, chairman and chief executive of the BIS Group, is leaving following its acquisition by ACT GROUP.**

■ **Christopher Houseman has resigned from ELECO HOLDINGS.**

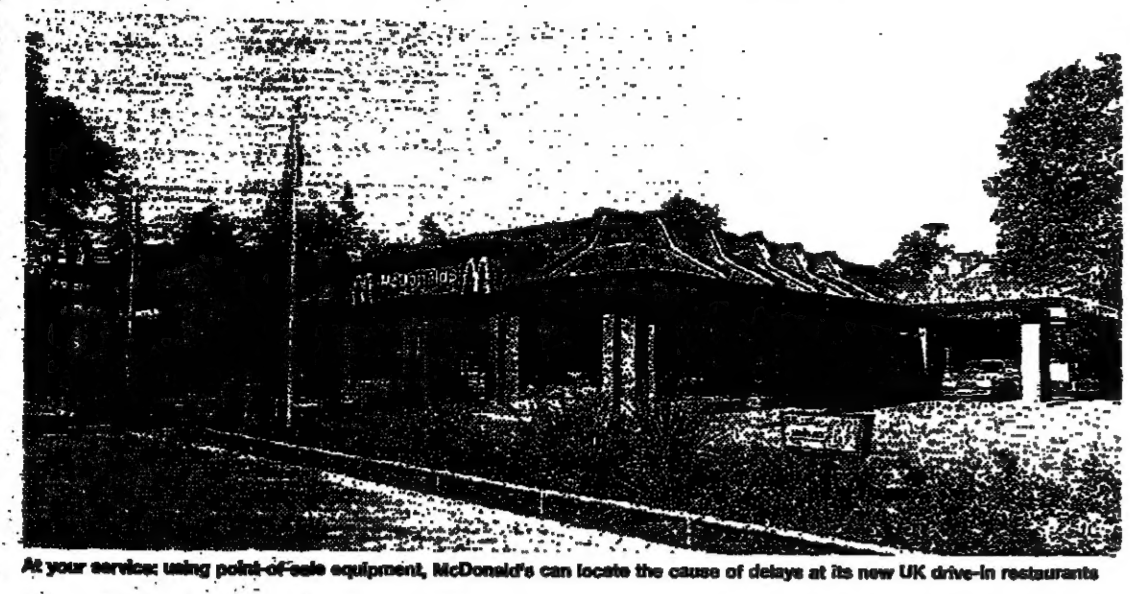
■ **Nicolas Thum has resigned as a director of TIME PRODUCTS.**

■ **Reginald Lowman, joint md of Ultramark Adhesive Products, has resigned from SPANDEX.**

TECHNOLOGY

Andrew Fisher looks at companies which have flourished with the help of instant data

Speed is of the essence



At your service: using point-of-sale equipment, McDonald's can locate the cause of delays at its new UK drive-in restaurants

If you want to shop with comfort in the US these days, just pick up the telephone and talk to Tootie. She will take your order, agree on the method of payment, and tell the warehouse to send off your product.

Tootie is not human. She is the recorded voice that answers consumers contacting Home Shopping Network, the main player in the $2bn (£1.3bn) business of electronic shopping, while watching one of the company's television sales promotions.

Not everyone, however, likes dealing with a recorded voice, even one whose responses have been programmed to match the goods on offer. A live operator will come on if the caller does not speak to Tootie within five seconds.

Florida-based HSN, which collects a massive array of near-instant computerised data on its sales and financial performance, is a prime example of how information technology can make life easier for companies and organisations, as well as their customers. With IT costs falling rapidly and hard-pressed computer companies pushing deeper into the services and software market, users can take their pick of technology to suit their needs, though they may not always make the appropriate choice.

Not only can this lead to faster and more reliable service for consumers and in public services, it also provides information of strategic value for enhancing efficiency, giving businesses new insights about their performance or lack of it, and streamlining their marketing activities.

Whether people like the idea of shopping from home or not, electronic retailing is an impressive demonstration of what can be achieved with IT. But there are plenty of more mundane ones. In the Netherlands, for example, the telephone company (Royal Dutch PTT Telecom) is refining the process of ordering a line connection to a minimum.

In one short visit to a Dutch PTT office, the customer can obtain a new number, a telephone contract, and the precise time of a connection within two days instead of the two weeks this used to take; by 1995, connections should be instantaneous.

What the Dutch PTT did was channel the information from its mainframe computers – including equipment from IBM, Digital Equipment, Unisys and Olivetti – to individual terminals in the sales offices. Thus sales staff have all necessary operational details about debtors, lines, payment methods, and other aspects of the business at their fingertips.

Modern IT methods have enabled the privatised Dutch PTT, most of whose exchanges are computerised, to put this data from several different systems together instead of requiring employees to switch between software programs on the same screen. This has cut errors and speeded up service. A big stimulus to its technological push was the need to raise efficiency ahead of the time when its monopoly status is reconsidered in two years.

The technology for this and other applications is not brand new, says Merlin Stone, visiting professor at Kingston University in the UK and a partner in Avanti Consultancy Services. But it has become much cheaper and better understood as computer companies have been forced by fierce competitive pressures to concentrate more on finding solutions for customers' needs and less on selling their own hardware.

"In some areas, the technology enables companies to do things they couldn't do before," explains Stone. Advanced software and computer networks mean that HSN, whose smaller rival QVC Network has proposed a merger, can not only process orders rapidly and automatically, but also provide an immediate, accurate and comprehensive picture of how goods are selling.

HSN's data is updated every 10 seconds so the hosts of its TV "infomercials" can see on a computer screen exactly how well the products on offer are selling. If they are moving slower than usual for the time of day or type of product, the host and producer can switch immediately to another line or promotional pitch. They are also kept up to date with inventory levels and told whether products are running

The company can monitor its sales progress in 'dollars per minute'

out. Thus HSN, which developed its own software, can monitor its sales progress in "dollars per minute", says Stella Tavilla, executive vice-president for management information systems.

At management level, this volume of product-tracking data is used to influence reordering and assist in marketing strategies, since HSN has full details of purchasers' names and addresses. "There's no doubt," adds Stone, "that in the direct marketing area, the ability to build a database on millions of customers, and process the information on-line and respond to it, has made a difference to what they can do."

This is a result of the sheer processing power and speed of today's computer equipment. A new study, initial results of which were presented at a conference in Nice, southern France, says companies are increasingly keen to use IT to improve service, and thus their competitive and financial position, while public service bodies want to respond more effectively to people's needs, sometimes under legislative pressures.

"Perhaps the most striking conclusion is that most large organisations are now seeing IT as one of the most important bridges to enhancing customer service," the report's authors, headed by Stone, state. "They now rarely see customer service as having separate components, such as marketing, selling, after-sales service and invoicing, each with their own system."

At the conference, organised by Unisys, the US computer group which sponsored the study, Stone said the UK was often 10 years behind the US in marketing. Companies like HSN, with its single-minded focus on a few performance indicators and its attention on "dollars per minute", showed what could be achieved with effective use of IT.

Nowhere is speed of service more important than in the fast-food industry. The UK operation of McDonald's, the US hamburger chain, is applying IT to improve and accelerate information flows between its restaurants and the London head office. As it upgrades point-of-sale equipment in its outlets, it can use POS data to pinpoint exactly where delays have been occurring, at what times of day, and why.

Previously, the UK company's performance indicators were based on averages for each store. "The fact that we serve one customer very well, or maybe even 10 customers very well, and one very poorly could be masked in that average," says Dan Fishman, assistant vice-president, information services. We need to be able to get away from that."

Fishman sees exciting possibilities in drive-in restaurants, more of which are being built in Britain, and remote ordering of fast-food meals. Queues in drive-ins can cause havoc at busy times. So, with the help of detailed data from its IT installations, McDonald's will track transactions to find the source of delays and decide how to tackle these.

Eventually, he hopes, customers will be able to order meals from office computers, using cheap software, or tap in their request at a special machine before entering, say, a shopping mall containing a McDonald's.

Not everyone likes McDonald's food, and shopping HSN-style in front of the TV is still only a minority form of retailing in the US. But, the activities of these and other companies show the extent to which the intelligent application of computer technology is changing both business and customer attitudes.

The IT companies are certainly being swept along by the change. With economic growth in western economies expected to be plodding rather than brisk in the next few years, users are increasingly calling the tune. By 1997, when the world IT market is expected to reach around $700bn, services and software are forecast to account for 60 per cent against just over half at present.

Customers now want more than the promise of ever faster and more powerful equipment, says John Perry, head of Unisys in the UK. They expect to be helped to use their IT systems more effectively, and that means more business in consultancy and less in hardware. "We think it's going to be a decade of battling for the customer."

Sealed with innovation

Advances at an Austrian group are helping industry, says **Ian Rodger**

It is difficult even for engineers to get excited about seals, the rubber or plastic rings that are fitted at joints in fluid pipes to prevent leakage. But this is a business with a $4bn (£2.6bn) annual worldwide turnover and vital to the functioning of most industrial machinery.

It is now being shaken up by a small Austrian company, Economos, that has achieved an impressive series of innovations in materials and production technologies and distribution methods.

There are thousands of seal types and sizes, and customers expect their distributors to keep stocks available of most of them. Seal makers, too, put pressure on distributors to buy large stocks. This is because their production technology and injection moulding encourages them to make large batches.

In the mid-1980s, Helmut Mayerhofer, founder of Economos, and his associates began investigating the possibility of developing compounds that could be machined on a numerically controlled lathe. When an order came in for a small quantity of an item not in stock, they could simply take a rough block of polyurethane or synthetic rubber and turn the required few pieces.

The problem was that few existing polyurethane compounds could be machined and those that could were not flexible enough to make suitable seals.

They approached the Department of Material Science and Material Testing of the Mining University of Leoben in Styria in 1988 for help, and within a year a formula was found that would produce a machinable polyurethane material suitable for seals.

Meanwhile, Economos, working with a plastic machine maker, developed a process for extruding the material into rough seal moulds – which resemble lengths of pipe – in industrial quantities.

The challenge in producing material for seals and extruding it into rough shapes is that the finished product must have highly consistent elastic properties and be free of bubbles. Achieving these aims becomes more difficult as the desired diameter of the seal increases.

The company's third innovation was the development of a lathe, cutting tools and software for machining the rough stock into precisely dimensioned seals.

Economos considers these developments to be so valuable that it does not allow any employee to learn both the chemical and production aspects of the technology. Moreover, it has not taken out patents, fearing that competitors would quickly find ways of getting around them.

An unexpected benefit came as a result of the speed and degree of automation of the company's lathe. It can machine a seal in about a minute, slice it off the rough stock and immediately machine another from remaining stock. This meant the system could be applied more widely than originally anticipated. Economos can use it to produce normal volumes as well as occasional seals.

Since production could be done in response to orders, why not set up for business as close to the customers as possible? Under that model, distributors would no longer need to carry large stocks, making possible lower prices and higher margins. Machinery producers might even be tempted to abandon the stocking and supply of replacement seals.

In the past two years, Economos has set up, together with local partners, what might be termed seal service centres worldwide. Economos supplies the rough blocks of material and the lathes, while the local entrepreneur, under a franchise agreement, machines and delivers seals in response to orders. So far, there are 250 such centres operating with the brand name Seal-Jet. Ernst Stocker, Economos managing director, estimates their combined annual sales at about $120m.

Economos had revenues last year of Sch420m (£23m) almost all of it from selling machines and materials. It is now revising its strategy to gain greater control of the seal service businesses outside Austria.

MANAGEMENT: THE GROWING BUSINESS

Radical proposal for loans

Further radical changes in the government's loan guarantee scheme are needed if it is to be of maximum benefit to businesses recovering from the recession.

This suggestion is made in a new study* by the Small Business Bureau, a Conservative party lobby group. The report comes within weeks of changes intended to make the scheme more useful.

The scheme provides a government guarantee on loans to viable businesses that lack either a track record or security. On July 1 the government increased the maximum loan from £100,000 to £250,000 and the guarantee from 70 to 85 per cent.

The bureau suggests:

- Make the scheme available to larger businesses. The recent increase in the maximum size of the loan was not accompanied by an increase in the size of eligible businesses.
- Simplify the complex eligibility rules. At present manufacturing companies must have a turnover of less than £3m, construction companies must have fewer than 25 employees and road transport companies must have fewer than five vehicles.

The bureau wants a two-tier scheme. Loans up to £100,000 would be available to businesses less than two years old with up to 50 employees and sales of £3m. Loans of up to £250,000 would be available to businesses of any age that have up to 125 employees and £7.5m of sales.

- Publish a more helpful explanatory booklet.

The present booklet makes qualifying for a loan appear too easy while a separate supplement, not always provided with the booklet, sets out the numerous restrictions.

- Start a debate about the possibility of requiring borrowers to show either that they have business experience or that they have had training.

CB

**Enhanced Loan Guarantee Scheme Report. Small Business Bureau, Suite 46, Westminster Palace Gardens, Artillery Row, London SW1P 1RR. Tel 071 976 7262. £5.*

Lydia van der Meer

Chris Nunn: 'We thought price and quality would be at the top of the list. It turned out customers wanted service and profits'

Planning your future together

A closer relationship with customers can bring benefits to both sides, writes **Charles Batchelor**

Hunter Plastics, a manufacturer of pipes and guttering, thought it knew what its customers wanted. But market research came up with some unexpected answers and set the company off on a quest to really get to know its customers.

"That research was our Rubicon," says Chris Nunn, managing director of the south London company, which has turnover of £15m and 200 employees. "We thought that price and quality would be at the top of the list. It turned out that customers wanted service and profits. They are related but different."

Hunter's customers – mostly builders merchants – were looking for products promoted and priced so as to leave them a satisfactory profit margin. They wanted the products delivered at convenient times, in handy quantities with a minimum of hassle.

As a result, Hunter has spent the past three years working much more closely with its customers. Buyers have been invited to Hunter's factory to meet staff in production, stores and quality assurance, not just sales. Customers have been visited to discuss their requirements and products, such as a new line of guttering, have been developed.

Better ways of running the business have been discussed and Hunter has replaced its cumbersome, labour-intensive method of processing orders with a computerised system. Closer links with certain customers have led to Hunter becoming the single source for some supplies.

Nunn says the closer relationship with customers has developed naturally. But the strategy – known as partnership sourcing – has been growing in popularity around the world in recent years. In the UK the Department of Trade and Industry and the Confederation of British Industry have established a joint venture, called Partnership Sourcing, to promote the concept.

Hunter was somewhat unusual in suggesting the partnership idea. In other cases of partnership sourcing the impetus has usually come from large companies buying from smaller suppliers. IBM UK, Nissan and British Airways are among the large purchasing organisations featured in one explanatory Partnership Sourcing booklet*.

Not surprisingly, suppliers used to the traditional adversarial relationship with buyers have often reacted cautiously to the idea. "If a buyer has been aggressive for years and then suddenly wants to give you a cuddle there is bound to be some initial suspicion," comments Norman Hosford, deputy director of Partnership Sourcing.

Adapting to relationships based on partnership requires considerable change on the part of both suppliers and purchasers. Companies that commit themselves to a single source of supply run the risk that the supplier could be hit by a strike, go bust or attempt to push up prices.

Suppliers that become overdependent on one large customer, or who reveal too much about the details of their business, might also be making themselves vulnerable.

What has brought the two sides together in a growing number of instances is the realisation that hard-nosed confrontation, based on price alone, benefits neither side.

"If price is everything, the time comes when the law of diminishing returns begins to apply," says Malcolm Diamond, managing director of TR Fastenings. TR, based in Uckfield, East Sussex, with sales of £27m and a workforce of 400, was introduced to the idea of partnership sourcing by a DTI initiative.

"You reach the point where savings don't reflect the time involved," Diamond says. "When there is nothing else to grab then something else will go wrong – deliveries will be late or quality will be poor or inconsistent."

Contacting potential suppliers, sifting through the quotes and selecting the cheapest products from a number of companies is enormously time consuming, Diamond says. It can lead to uneven quality and create an administrative jungle.

For basic products such as the nuts and bolts supplied by TR, 80 per cent of the cost to the purchaser goes into handling deliveries, breaking up bulk consignments and getting them to the right place in the production line.

For those customers with which TR has reached partnership sourcing agreements – accounting for 30 per cent of the company's turnover – deliveries are made direct to the production line without the need to count or check them for quality.

One customer, Worcester Controls, bought more than 800 items at a cost of £200,000 a year from TR. But 35 items accounted for £130,000 of the total and involved more than 400 deliveries a month. Each delivery could take up to two weeks to pass through the goods-in and inspection departments before it was available for use.

TR's delivery driver now stocks up these 35 items himself with one delivery note per delivery and one invoice each month.

Adapting to partnership sourcing does not require sophisticated systems but it does require a change in attitudes on the part of both partners, comments Hosford. Very few partnership sourcing arrangements involve written agreements so they depend to a great degree on trust.

Suppliers and purchasers must invest a lot of time and effort in establishing new procedures. In practice they will only do this with companies they have dealt with for many years.

"It is difficult discussing problems with a customer," says Chris Nunn. "But if something is going wrong in production or delivery it is better for the customer to know. That is the way a long-term relationship builds up."

Once a supplier can count on such a relationship it is in a better position to make long-term investment plans, says John Edser, managing director of Hatfield-based Applied Digital Devices (ADD), which repairs computer equipment for ICL and others. ICL accounts for half of ADD's £2m turnover.

ADD, which is one of more than 180 partnership suppliers signed up for ICL's vendor accreditation programme, has received help in bringing its quality assurance system up to ISO9000 standard. It has also been encouraged to adopt electronic data interchange (EDI), a paperless method of exchanging orders, and qualify for Investors in People, a government-backed scheme to improve workforce skills.

Implementing such new procedures can place enormous pressure on suppliers – ADD has not found it easy changing over to EDI – but it does give a small company access to skills and systems that help it deal with other customers. "It gives us a competitive edge in the market place and services we can offer to other customers," Edser says.

In theory, partnership sourcing can lead to such close contacts between the two companies involved that the supplier opens his books to the customer. The idea is that this openness allows the customer to see where further cost savings could be made and overcome any fear that the single source supplier is overcharging.

In practice open-book accounting has proved extremely controversial and has yet to be implemented by many companies.

"The idea has been raised by a few customers but I would regard it as a little high-handed," comments Diamond. "I don't mind showing people my management accounts if they really need them. But I have a certain distaste for the idea. You don't go into a restaurant and ask to look at the kitchen. Anyway production costs can change from month to month."

ADD does not give ICL access to its accounts, though it was asked to do so a few years ago. But ICL does use its partnership sourcing arrangement to maintain tight controls on costs. It expects cost reductions in return for putting more business ADD's way, explains Edser. He calculates that prices have been reduced in three of the past five years and held steady in the other two. The supplier benefits by being able to spread his overhead costs over a bigger volume of business.

Partnership sourcing may represent a move away from traditionally adversarial relationships between suppliers and purchasers but it is not a cosy alternative, says Hosford. "It requires a large investment up-front and continuous, close monitoring. It is not an easy option."

**One of three booklets entitled Partnership Sourcing, Making Partnership Sourcing Happen and Creating Service Partnerships. £7 each or £18 the set. From Publication Sales, CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU. Tel. 071 379 7400.*

Investors sought for city

Plans for a £3m local investment fund to finance community enterprises in deprived inner-city areas have been announced by Business in the Community (BITC), which co-ordinates business support activities.

The Department of the Environment has promised £1m if corporate investors can be found to provide £2m. If the money can be raised the fund hopes to back about a dozen community projects in the north-west of England.

Community enterprises are businesses with a social purpose such as the North Kensington Amenity Trust, which has developed wasteland beneath a raised motorway in west London, and Cruddas Park Community Trust, which has helped revitalise a housing estate in Newcastle upon Tyne. The projects must be in Urban Priority Areas.

"We want to show investors that they can reap a profit from investments which most people don't see as paying back," said Graham Bann, director of the investment fund.

Models for the idea are ventures such as the South Shore Bank, which has revitalised a run-down area of Chicago, and Triodos Bank, an ethical investment bank in the Netherlands. Different banking laws have meant that the project has been set up as a fund in the UK.

South Shore Bank made a loss provision of 0.8 per cent of the loan portfolio in 1991, while Triodos made a provision of 1.6 per cent, so properly monitored investments can be an acceptable lending risk, BITC said.

If the first £3m "pilot" fund is successful BITC plans to raise a larger second-stage fund. Minimum investment in the pilot fund will be £50,000 so it will appeal mainly to corporate investors.

The second fund, if it goes ahead, is expected to call upon deposit-taking institutions, companies and wealthy private individuals.

CB

**BITC, 8 Stratton Street, London W1X 5FD. Tel. 071 629 1600. Fax 071 629 1834.*

BUSINESSES FOR SALE

GREEK EXPORTS S.A.

ANNOUNCEMENT OF A PUBLIC AUCTION FOR TEE HIGHEST BID

GREEK EXPORTS S.A., established in Athens (17 Panepistimiou Street) and legally represented, in its capacity as Liquidator in accordance with article 46a of Law No. 1891/1990, supplemented by article 14 of Law No. 2000/1991 and following Decision No. 3089/1993 of the Athens Court of Appeal,

ANNOUNCES

a Public Auction for the Highest Bid with sealed, binding offers for the sale, in toto, of the assets of the société anonyme named GENIKI PROMITHEFTIKI (KATASKEVAI) AE ELECTRICAL, TELECOMMUNICATIONS AND PLASTICS INDUSTRY, which is under special liquidation.

ACTIVITY AND BRIEF DESCRIPTION OF THE COMPANY

GENIKI PROMITHEFTIKI (KATASKEVAI) AE is engaged in the manufacture of low, medium and high voltage electrical equipment of all kinds. In its long period of operation, the Company has succeeded in absorbing and applying locally foreign know-how and is considered to be one of the most successful suppliers of the Public Power Corporation (DEH), the Hellenic Telecommunications Organisation (OTE) and other corporations.

The company is established in Athens and is housed in self-owned offices of about 115 sq.m. in area (25 Stournari St.) while its plant is at Oinophita, Boeotia, on a self-owned plot of 18,286 sq.m. On this plot, there is a three-storey building consisting of a ground floor, a first floor, a second floor and a roof terrace. The built-up part covers an area of 5,493 sq.m. together with smaller, secondary buildings covering about 490 sq.m.

TERMS OF THE AUCTION

1. In order to take part in the auction, interested parties are invited to receive from the liquidator the Offering Memorandum as well as the form of the Letter of Guarantee required for the submission of a binding offer to the Athens notary public assigned to the public auction, Mrs. Andriani-Dimitra Economopoulou-Zapheiropolou, 18 Voukourestion Street, 5th floor, tel. 361.8249 up to Thursday, 2nd September 1993 at 1900 hours. Bids must be submitted in person or by a legally authorised representative.
2. The bids will be unsealed before the above-mentioned notary public on Friday, 3rd September at 1100 hours with the Liquidator in attendance. Those who have submitted bids within the prescribed time can also attend. Bids submitted beyond the prescribed time will not be accepted or taken into account.
3. The sealed, binding offers must clearly state the price offered for the purchase, in toto, of the Company's assets and must be accompanied by a Letter of Guarantee from a bank legally operating in Greece, for the amount of eighty million drachmas (80,000,000 drs.) or its equivalent in U.S. dollars.
4. The Company's assets and all fixed and circulating constituent parts thereof, such as immovable and movable property, claims, trademarks, titles, rights, etc, are to be sold and transferred "as is, where is" and, more specifically, in their actual and legal condition and location on the date on which the sale contract is signed, regardless of whether the Company is operating or not.
5. The Liquidator, the Company and the creditor representing 51% of the total claims against the Company (Law 1892/90 article 46a para. 1 as in force), known hereafter as the Majority Creditors, shall bear no liability for any legal or actual defects or for any deficiency in the effects and rights for sale nor for the possible refusal of the State to approve, as required the transfer of elements of the assets, nor for their incomplete or faulty description in the Offering Memorandum and in any correspondence. In the event of inconsistencies, entries in the Company's books, as they stand on the date of signature of the sale contract, shall prevail.
6. Prospective buyers, hereinafter referred to as "Buyers", shall be obliged, on their own responsibility and due care, and by their own means and at their own expense, to inspect the object of the sale and form their own judgement and declare in their bids that they are fully aware of the actual and legal condition of the assets for sale. The Buyers are hereby reminded that, in accordance with the provisions of Law 1892/90, article 46a, para. 4 as in force, having agreed in writing to maintain confidentiality, they are entitled to have access to any information they may require concerning the Company for sale.
7. Bids should not contain terms which might prevaricate their bindingness or any vagueness concerning the offered price and its method of payment, or any other matter of importance to the sale. The Liquidator and the Majority Creditors have the right, at their incontestable discretion, to reject offers which contain terms and conditions, irrespective of whether these offers contain a higher price than that of other bidders. Such unacceptable terms would be, for example, requests for the repair, improvement or transfer of fixed assets, or requests for guarantees in the collection of claims or the outcome of court actions brought by the Company in this respect, or compliance with recommendations regarding the security of the installations, or safeguarding the insurance cover, etc.
8. In the event that the person to whom the auction is adjudicated, fails in his obligation to appear within twenty (20) days from being invited to do so, and sign the relative contract and fails to abide by the other obligations accruing from the present announcement, then the above-mentioned guarantee of eighty million drachmas (80,000,000 drs.) is forfeited to the Liquidator in compensation for expenses of any kind, time spent, any actual or hypothetical loss sustained with no obligation on the Liquidator's part to furnish any specific proof or deem that the amount has been forfeited to him as a penalty clause and collect it from the guarantor bank.
Guarantees deposited by other bidders shall be returned to them after the Liquidator's evaluation report has been approved by the Majority Creditors and the highest bidder's guarantee shall be returned to him after he has paid the sale price and the act of settlement has been drawn up and signed.
9. The highest bidder is deemed the one whose offer has been judged by the Liquidator and approved by the Majority Creditors as being in their best interests.
10. The Liquidator shall not be liable to participants in the auction either with respect to the evaluation report or for his selection of the highest bidder and neither will he be liable to them for the cancellation of the auction in the event that its outcome is not approved by the Majority Creditors.
11. Participants in the auction do not acquire any right, claim or demand from the present announcement or from their participation in the auction, against the Liquidator, for any cause or reason.
12. Transfer expenses of the assets for sale (taxes, stamp duty, notarial and mortgagor's fees, rights and other expenses for drawing up topographical diagrams as required by law 651/77, etc.) are to be borne by the Buyer.
13. Those taking part in the auction will be committed to keep the enterprise operating in its present form.

For any information, interested parties can apply to:

a) The head office of E.T.B.A. S.A.
Directorate of Public Holdings
87 Syngrou Avenue (2nd Floor)
Tel. 30 1 92 [illegible]

b) GREEK EXPORTS S.A.
17 Panepistimiou Street (1st floor)
Tel. 30 1 32 43 113 [illegible] 30 1 32 43 115

PURPOSE BUILT NURSING HOME SOUTH COAST

Reg. for 54, 47 bedrooms, 22 en-suites, circa. 1.5 acres of cliff top gardens, spectacular views. T/O for March-June '93 268k. (2/3 fee income Pte, and 1/3 DSS). 13 person lift, new day centre reg. 6 patients, PP submitted for integral new GP's Surgery and 4 add single beds. No onerous leasing. 12 seater mini bus. Anticipated net profit at present reg. circa 300k. To incl. newly estab. Nursing staff agency (sub. to Lic. assignment) Freehold Price 1,500,000. Seriously interested applicants only need apply to Box B1379, Financial Times, One Southwark Bridge, London SE1 9HL.

SPECIALIST PRECISION ENGINEER

- Turnover approaching £3m
- 75% value added
- Niche global markets
- Approvals by leading world oem's
- Located in South

Write to Box B1385, Financial Times, One Southwark Bridge, London SE1 9HL.

Private Rehabilitation Clinic

Berkshire

The Joint Administrative Receivers offer for sale as a going concern, the business and assets of a private rehabilitation clinic, near Twyford.

Principal features include:

- Freehold Regency style mansion set in 7 acres
- Modern and comprehensive facilities.
- Licence for 37 patients.
- Highly qualified and dedicated staff
- Outline planning permission for extension

For further information contact the Joint Administrative Receiver, Paul Jellery, KPMG Peat Marwick, PO Box 730, 20 Farringdon Street, London EC4A 4PP. Tel: 071 236 8000. Fax 071 248 1790.

KPMG Corporate Recovery

BUSINESS FOR SALE

Metex Ceilings Ltd

The Joint Administrative Receivers offer for sale the business and assets of Metex Ceilings Limited, based in Hayes, Middlesex. The company specialises in the distribution of suspended ceiling systems, partitions and raised floors.

Principal features include:

- Three trading locations: two leasehold properties - 16,500 sq ft nr Heathrow and 5,000 sq ft in Birmingham plus a Leeds based subsidiary (not in receivership)
- Audited annual turnover for period ended March 1992: £2.8m
- Export to eight overseas locations
- Large customer base
- Excellent reputation for quality and service

For further information please contact
Mr Michael Bowell
Levy Gee & Partners
Weltem House, 56 Dingwall Road
Croydon, Surrey CR0 0XH
Tel: 081-631 8389 Fax: 081-681 8402

LEVY GEE & PARTNERS
CORPORATE SUPPORT SERVICES
LONDON • MANCHESTER
WORTHING • CROYDON

Shire Medical Systems Ltd
Mid-Shire Computer Services Ltd

(In Receivership)

Crewe

These companies develop customised computer packages and supply systems to dentists and opticians:

- Annual turnover circa £800K
- Established over 12 years
- Annual support/maintenance contracts exceeding £150K
- Skilled support team
- A leading supplier in the developing healthcare market

The companies also occupy a freehold property which is available, comprising 5,200 sq. ft. including training facilities.

For further details contact the Joint Administrative Receivers: Roy Welsby and Edwin Antill, Grant Thornton, 115 Edmund Street, Birmingham B3 2HJ.

Tel: 021 212 4000. Fax: 021 212 4014.

Grant Thornton

The U.K. member firm of Grant Thornton International. Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

INVITATION

for expressions of interest in acquiring the stock of ELEVME S.A. in MEVIOR S.A. - MINING AND INDUSTRIAL MINERALS.

In line with the Greek government's privatisation programme, ELEVME S.A. (Currently under liquidation), as major shareholder in MEVIOR S.A. - MINING AND INDUSTRIAL MINERALS, intends to sell its stock in this company.

SUMMARY PRESENTATION OF MEVIOR S.A.

The company was established in 1981 with the purpose of prospecting, exploring, processing and marketing all kinds of minerals and products derived therefrom, acting directly or on behalf of third parties. In addition, the company may participate in other companies or operations with similar or related objectives.

The share capital of the company amounts to Drs 500,500,000 78.71% of which is held by ELEVME S.A. and 21.29% by NIBID S.A.

The company is now active in the production and marketing of:

Feldspar
Quartz
Silica sand
Quartzite
Wollastonite

ESSENTIAL FINANCIAL DATA
1992 (in Drs)

Total Assets	635,298,588
Net Worth	552,586,333
Turnover	212,610,048
Net results as at 31.12.92 (Profits)	3,639,394

PROCEDURES

1. In phase I, interested parties are invited to submit in writing their non-binding expressions of interest within twenty (20) days.
2. In phase I, potential buyers should express their interest not later than 23rd August 1993.
3. In phase II, ELEVME S.A. will supply interested parties with an offering memorandum describing the activities and operation of MEVIOR S.A. Prior to this, potential buyers must sign a confidentiality agreement with ELEVME.
4. Following the completion of phases I&II above, potential buyers will be invited to submit their binding offers, accompanied by a bank guarantee, details of which will be given in the bid invitation.

For any further information, interested parties may apply to the liquidators of ELEVME at 18, Kifissias Avenue, 151 25 Maroussi, Greece. Tel: +30-1-684.3520 Fax: +30-1-684.3527 or to MEVIOR S.A., P.O. Box 11192, 541 10 Thessaloniki, Greece. Tel: +30-394-61526 Fax: +30-394-61606 Attn. Mr. G. Anastassopoulos.

The Marketing and Merchandising Company Limited

(In Receivership)

The business and assets of the above company are offered for sale as a going concern by the Joint Administrative Receivers.

- The company manufactures and installs shop fittings and point of sale merchandising equipment for the retail trade.
- Blue chip customer base.
- Operates from leasehold premises in Ashton, East Manchester.
- Turnover in excess of £3.0 million per annum.
- Skilled workforce of 52.

Enquiries to:
I C Powell FCA, Price Waterhouse
York House, York Street, Manchester, M2 4WS
Telephone: 061 228 6541 Fax: 061 236 1268

Price Waterhouse

Price Waterhouse is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

On the Instructions of Town and Country Inns Plc

BIRMINGHAM'S PREMIER NIGHTLIFE VENUES

in the city's expanding commercial/leisure/entertainment district

STOODI BAKERS
- Themed American Diner (65)
- T/O to y/e 31st March 1993 —£1,246,283 net of VAT
- Leasehold £1.5 million

BAKERS THE CLUB
- Nightclub directly over Some Place Else Brasserie
- T/O to y/e 31st May 1993 —£610,768 net of VAT
- Leasehold £600,000

SOME PLACE ELSE BRASSERIE
- Licensed Restaurant (110)
- T/O to y/e 31st May 1993—£497,848 net of VAT
- Leasehold £400,000

For sale as a group or individually
For full details contact: Paul Davey, Birmingham Office
021 456 1222

CHRISTIE & Co

On the instructions of G.M. Krasner FCA and L. Taylor of Bartfield & Co. Joint Administrative Receivers of Wavcare Limited T/A Bryans Chemists and Mediway Limited T/A Phillips Pharmacy.

F O R S A L E

FOUR RETAIL PHARMACIES

Offered together or as individual units.

- Freehold/Leasehold Shop Premises situated within the Leeds and York area.
- Fully fitted operational businesses.
- Combined turnover for year ending 5th April 1992 circa £1·47 million showing overall Gross Profit of approximately 26·9%.
- Estimated combined number of NHS items 13,750 per month (average)

Please contact:
Stephen Jones/Ian Naylor

Weatherall Green & Smith
0532 442066

SENEGAL, WEST AFRICA

Six hundred bed, beach side
HOLIDAY VILLAGE
Price DM 9 million

THAILAND

432 Bed, nearly new beach side
HOLIDAY VILLAGE
Recommended viewing. DM 30 million

HOTELS FOR SALE WORLDWIDE

MICHAEL PEGG INTERNATIONAL
Tel: England 0272 420 243
Fax: England 0272 420 247

OUTSTANDING OPPORTUNITY DUE TO IMPENDING RETIREMENT

Majority shareholding for sale in long established building and domestic development company situated in the North West. An area in which a strong trading position has been maintained and where opportunities exist for tremendous expansion. Building turnover being circa £3m, developments being around 10 units per year.
Genuine enquiries only - no time wasters.

Applications only considered by letter marked Private and Confidential to:
Robert A. Fletcher B.A.,
Fletchers Solicitors, 162, Lord Street, Southport PR9 0QA.

CHOCOLATE CONFECTIONERY

Profitable manufacturing business for sale due to owner retiring. Good order book from major blue chip customers. Modern plant and procedures reflecting current best practices. Current T/O £2m and growing rapidly. Asking price £2m. Replies from principles only please to:

Box B1380, Financial Times, One Southwark Bridge, London SE1 9HL

SPORTS RETAIL for sale

Renowned Ski, Outdoor and Watersports business

Prime location in Central and SW London catchment. 18 years trade T.O. c.£1/2m. Long lease. Main dealers for major international brands.

Write Box B1350, Financial Times, One Southwark Bridge, London SE1 9HL

DO YOU WANT TO SELL YOUR COMPANY

tax-free and still control it?

Answers to Box B1393, Financial Times, One Southwark Bridge, London SE1 9HL

PRECISION ENGINEERING COMPANY Essex. Turnover £30K/month. Substantial past years tax losses available. Box B1036, Financial Times, One Southwark Bridge, London SE1 9HL

VIDEO TAPE WINDING BUSINESS For Sale. Well established in London SE. Business unit/office, favourable lease, latest equipment, excellent going concern, good track record. £87k. Further details write to Box B1054, Financial Times, One Southwark Bridge, London SE1 9HL.

BUSINESS SERVICES

JAPAN MARKETING RESEARCH CO Branch formation, accommodation address. Details Target Marketing London and Tokyo. Tel 081 541 1541 Fax 081 547 1484

HARLEY STREET BUSINESS CENTRE. Fully serviced offices, business address, boardroom, all secretarial services plus free telephone and message taking for further details. Phone: 071 637 5505.

YOUR MAILING ADDRESS in London, Paris, Berlin, Frankfurt, Madrid and 70 other top locations worldwide. Call Regus on 071 872 5500

MEDIA BUYING - WORLDWIDE. For a brochure on our cost-effective media planning & buying service Tel 081 892 9137

LEISURE BUSINESSES

You only sell your Leisure Business once. As a result, you will want the right buyer at the right price.

We have the experience, expertise and contacts to fulfil those aspirations.

J M Osborne and Co.
Chartered Surveyors and Leisure Business Consultants.
Tel: (0295) 277197
Fax: (0295) 268451

YOUR OFFICE IN LONDON From 70p a day. Accom/Tel Ans/Tlx/Fax/Mail Box etc. Office Box. Tel: 071 436 0766 Fax: 071 580 3729

NURSING HOME GROUP

We have a profitable, cash generating group of EMI and nursing homes with 700 beds in North of England in mainly purpose built building and extensions. Ideally we would like to merge with a similar group, either listed on the stock market or intending to do so in the near future but would also consider outright sale.

Replies to Box B1386, Financial Times, One Southwark Bridge, London SE1 9HL.

KINGSLEY PINE LTD (IN RECEIVERSHIP)

L Harris CA of Leonard Harris & Partners offers for sale as a Going Concern Pine Furniture Manufacturing Business in Haydock

- Fully equipped leasehold property c/w Stock
- Large customer base
- Experienced workforce
- Turnover circa £1.9 million p.a.

Details GRG/W68
Dunlop Heywood, 061 834 8384

ADVERTISING AGENCY FOR SALE

South Hampshire based agency for sale with an excellent client base. This is a very profitable agency with a first class trading record. With full in house studio and DTP facilities this represents an excellent opportunity for expansion in the Southern area.

Please apply to: Box No: B1382, Financial Times, One Southwark Bridge, London SE1 9HL.

NURSING HOMES GROUP 263 BEDS (5 HOMES)

2 Homes (90 beds) one near London & other in SE. 3 homes (173 beds) in London, 2 purpose-built under development. Projected operation Profits £1.2m + (option to further 90 beds) For Sale Merger or Acquisition. Principals only.

Write to Box B1377, Financial Times, One Southwark Bridge, London SE1 9HL.

DAIRY PRODUCTS COMPANY

Select Dairy Products processing business, established 1988, supplying highest quality ice cream and yoghurt to a wide customer base in London and the Home Counties. Capital now required to expand through sale, lease or other arrangement.

For further information telephone Nicki Curtis (0202) 887331

BIOTECHNOLOGY COMPANY BUSINESS & ASSETS FOR SALE

Projected annual Sales £400,000
Large quantity of Stock and Production Equipment
PRINCIPALS ONLY

Box B1390, Financial Times, One Southwark Bridge, London SE1 9HL.

RETIREMENT SALE CUMBRIA

Exceptional 12 bedroom hotel in own grounds. High accolades. Good forward bookings. Adjacent attractive barn complex. Planning permission residential or self catering. Unique situation. Sale in 2 lots considered. No agents.

Box No B1391, Financial Times, One Southwark Bridge, London SE1 9HL.

LIMITED CO FOR SALE

Specialist sports cars, showroom, sprayshops, car dismantling yard, 3 acre site, under management, owner retired, good profits even in the recession years, for sale at peanuts price, near Heathrow.

Box B1369, Financial Times, One Southwark Bridge, London SE1 9HL.

FOOTBALL LEAGUE CLUB THE CONTROLLING INTEREST

REAL OPPORTUNITY. NO CORE-DEBT.
SMALL OVERDRAFT. MASSIVE POTENTIAL.
EXCELLENT FACILITIES. GOOD GATES.
STRICTLY PRINCIPALS ONLY.
NO AGENTS, DAYDREAMERS OR TIMEWASTERS PLEASE!

Box B1388, Financial Times, One Southwark Bridge, London SE1 9HL.

FOR SALE

Wall and Floor Tiling Contractor. London and S.E. with retail showroom, Est. 20 yrs. T/O £700k P.A. Room to expand. Sole proprietor seeks to retire, possible ongoing consultancy. Interested?

Write: Box B1376, Financial Times, One Southwark Bridge, London SE1 9HL.

GAS CONTROL

Non-core £1m+ turnover Industrial Gas Control business for sale, with high quality products, approvals and blue chip customers. All respondents should clearly indicate their suitability.

Box B1371, Financial Times, One Southwark Bridge, London SE1 9HL.

TAX LOSS CO. FOR SALE 50K No assets/liab. £20K Box No. B1387, Financial Times, One Southwark Street, London SE1 9HL

B&A MAGAZINE ADVERTISES businesses for sale and auction of assets. Tel: 071-262-1164 Fax: 071-706-3464

HOTELS & LICENSED PREMISES

THE CORBETT ARMS, TYWYN GWYNEDD Fully licensed 42 bedroom coastal town centre hotel. Net T/O £272,000. Offers around £275,000. Robert Barry & Co. (0895) 841642.

AUCTIONS

AUCTION

On Instructions of British Rail Procurement & Materials Management Division

following closure of

The Network Laboratory
Muswell Hill, London

Sale by Public Auction & Tender

on

Thursday 19 August 1993

of

the plant & equipment items of the laboratory used in the fields of Microbiology, Occupational Hygiene, Environmental Health & Forensic Analysis

FOR CATALOGUE CONTACT THE AUCTIONEERS

Charterfields

301 Glossop Road, Sheffield, S10 2HL
Tel 0742 797769 Fax 0742 797579
Also at Newcastle Upon Tyne, Tel 091 261 2500

INTERNATIONAL ASSET VALUERS AND AUCTIONEERS

BUSINESSES FOR SALE

Appear in the Financial Times on Tuesdays, Fridays and Saturdays.

For further information or to advertise in this section please contact

Karl Loynton on 071 873 4780 or
Melanie Miles on 071 873 3308

FINANCIAL TIMES

BUSINESS AND THE LAW

Ruling on PVC overturned

EUROPEAN COURT

In an opinion of the European Court of Justice, Advocate-General Walter Van Gerven says the judgment of the Court of First Instance in a case concerning polyvinylchloride should be set aside. The case should be sent back to the CFI for outstanding issues to be dealt with.

The case concerned a Commission decision to fine certain companies for anti-competitive behaviour in the supply of PVC. The companies applied to the court to have the decision annulled.

The CFI found that the decision was non-existent in that there had been a manifest breach of the principle of "inalterability of the measure adopted", that the decision was not authenticated and that the member of the Commission responsible for competition matters who signed the decision did not have the competence to do so. The Commission appealed to the European Court.

The advocate-general first rejected a claim by the companies that the Commission had not lodged its appeal in time and that it should not therefore be heard. He then dealt with the issue that changes had been made to the decision in between the time when it was adopted by the collegiate body of Commissioners and the time when it was notified to the companies.

The CFI had ruled that the fact that the changes were more than mere spelling or grammar amendments meant that the principle that a measure adopted by the Commission could not be altered – the "inalterability" principle – had been breached.

The advocate-general said that the CFI had used the wrong test in making its decision on this point. Instead of examining the *extent* of the changes made, the CFI should have examined the *effect* of those changes on the companies and whether the changes had materially affected their understanding of the Commission's decision against them, and thus whether their legal position had been adversely affected. The CFI's findings on this point, therefore, were struck down by the ECJ.

The advocate-general moved to the issue of authentication. The problem arose in the context of the fact the decision was authentic in five official language versions. The full Commission had adopted the final decision in three of those versions – English, French and German – but had left the commissioner for competition to adopt the other two remaining versions, namely Dutch and Italian.

The CFI had ruled that the Commission had no power to delegate the right of adoption; and that only the Commission could adopt authentic texts. The advocate-general disagreed. He said it was permissible for the Commission to delegate to a commissioner the power to adopt the text of a decision which had already been adopted by the full Commission in another language version. Essentially, the task entrusted to the commissioner was one of practical execution or internal organisation, capable of being delegated.

As to whether each decision adopted by the Commission should be signed by the president and secretary-general of the Commission, the advocate-general found that, although the Commission had breached its own internal procedural rules in this instance, the breach was not such as to nullify the decision in question.

This was because the president and the secretary-general had signed the minutes of the meeting at which the decision in question had been adopted by the full Commission, and that, as the minutes accurately reflected the contents of the decision, the rights of the companies concerned – that the decision as notified to them individually corresponded to the decision taken by the Commission – had not been breached.

Finally, the advocate-general found that the fact that the decisions individually notified to the companies concerned had not been signed by the commissioner for competition was irrelevant. The decision had clearly been adopted by the full Commission and its legal effects were not hindered by lack of a signature.

C-137/92 P: Commission v BASF AG and others, opinion of Mr Advocate-General Van Gerven, June 29 1993.

BRICK COURT CHAMBERS, BRUSSELS

Redress for a grievance

Robert Rice on how some employees gained access to pension funds

As the Goode Committee continues its review of pensions law in the light of the Robert Maxwell affair, the ability of pension fund members to pursue their grievances through the courts received a considerable boost last week.

The High Court confirmed an order giving members of two funds run by Melton Medes, an unquoted Nottingham-based conglomerate, the right to use pension fund monies to pay their legal costs so as to enable them to continue their action against the pension funds' trustees, Mr Nathu Ram Puri, the Melton Medes chairman, and Mr James Philpotts, its chief executive.

This is the first time such an order has been made by the courts. It provides a very important means of safeguarding the rights of the members of pension funds that are controlled by their employers, according to Mr Sean Hand, a partner of the solicitors acting for the pension fund members, Dibb Lupton Broomhead.

Allowing pension fund members to use the fund to finance legal action against the trustees "could go a long way to meeting the greatest inadequacy of current pension scheme regulation, namely, the inability of beneficiaries to obtain redress for their grievances", he says.

Company law went through a similar process over the right of minority shareholders to be indemnified by the company against the costs of any legal action brought on its behalf, he says. That right was enshrined in statute law by the 1980 Companies Act.

"Maybe it is time that pension fund members were given a similar statutory right to be indemnified by their funds. The Goode Committee should take note," he adds.

The Melton Medes saga began in 1986 when Robert Fletcher (Greenfield) and Robert Fletcher (Stoneclough), two paper mills previously owned by the Imperial Group, were sold to a subsidiary of Melton Medes.

Shortly after the sale went through, the new trustees of the funds, Mr Puri and Mr Philpotts, sanctioned a £4m loan from the two funds to the parent company at an interest rate of only 2 per cent. The loan was secured by a second charge on freehold properties of the Robert Fletcher mills which had already been charged to Lloyd's Bank.

When employees discovered that pension fund money had been used to finance an inadequately secured loan to Melton Medes at an uncommercial rate of interest, they became very concerned about possible losses to the fund.

But their concern turned to alarm when the loan was repaid, not in cash, but in a transfer of shares

Colin Beere

James Philpotts: one of the pension funds' trustees

from Melton Medes in two small quoted companies, Delaney Group and Marling Industries, in which Mr Puri's companies had large stakes. Indeed, Mr Puri was chairman of and had a controlling interest in Delaney.

Since the transfer, the shares in both companies have plummeted by more than half.

In March 1992, the plaintiffs, seven members of the pension funds, decided to sue for breach of trust both in relation to the £4m loan and the transfer of the shares.

The launch of the main action was followed four months later by a second action seeking disclosure of certain documents to the plaintiffs as beneficiaries of the funds, the appointment of judicial trustees, and an order to prevent further dissipation of the funds, pending the hearing of the main action.

Both actions were originally funded by the plaintiffs' union, the Graphical Paper and Media Union (GPMU). But when it became apparent that the costs of a long, drawn-out court battle would be too great to expect other members of the union to fund, the GPMU withdrew.

In January this year the plaintiffs applied to Mr Justice Vinelott for an order that the costs of the actions should be paid out of the pension funds, at least until the defendants had handed over the documents requested and they had had time to inspect them.

Mr Justice Vinelott was originally against granting such an order on the basis that it might be possible for the two sides to reach a compromise on the appointment of new trustees who could then take up the members' grievances.

In March, however, the position was further complicated by the launch of a parallel action against Mr Puri and Mr Philpotts by the Securities and Investments Board, alleging breach of the Investment Management Regulatory Organisation's rules in relation to the original £4m loan.

Negotiation between the two sides failed. Mr Justice Vinelott confirmed in a judgment given last week that he would grant the plaintiffs the pre-emptive costs order and appoint Mr Neil Cooper and Mr Ipe Jacob, partners in accountants Robson Rhodes, as judicial trustees of the funds.

The judge said that what the plaintiffs were seeking was an order that as representative beneficiaries, they should be entitled to pursue the claims on behalf of the trust estate and be entitled to the same order to which they would have been entitled if they had been trustees acting with the authority of the court.

There is clear authority, he said, for the courts to allow trustees who wish to protect themselves from possible personal liability for the costs of prosecuting or defending proceedings to fund those proceedings at the expense of their trust funds.

Mr Justice Vinelott then drew a distinction between conventional trust funds and pension funds.

"In the case of a pension fund, unlike a conventional trust fund, the beneficiaries have themselves contributed both in cash and in service to the employer," he said.

"They are entitled to be satisfied that the trust fund to which they have contributed is administered in a way which reflects their legitimate expectations by trustees in which they have full confidence."

This is a new and very important statement of the law, according to Mr Hand.

"It appears to be heading towards saying pension fund trustees must be accountable to their beneficiaries," he said.

The judge then went on to say that he intended to grant the plaintiff's application for the appointment of judicial trustees because it was unjust in the context of a pension fund, that the administration of funds to which members had contributed and which required the continual exercise of discretion, "should be left in the hands of persons in whose fairness and probity the beneficiaries no longer have confidence".

The uniqueness of this decision lies not so much in the costs order itself, says Mr Hand, but in the mechanism the judge used to resolve the problem – combining the granting of the costs order with the appointment of judicial trustees.

In a conventional trust, this type of order would be impossible, he adds. The court would never remove existing trustees and substitute judicial trustees until the substantive case had been argued.

But the judge made it clear that different principles should apply in the case of pension funds. Mr Hand said the main action could now go ahead.

LEGAL BRIEFS

Legal auditor damaged client relationship

The trend in the US towards companies employing independent legal auditors to vet their law firm bills may be reined back by a legal action which has been launched by a Los Angeles law firm claiming a legal auditor irretrievably damaged a 20-year relationship with a valued client. Allen Rhodes & Sobelsohn is suing Mr Bruce Bealke of Legal Audits Inc of St Louis for $3m in economic damages plus punitive damages for defamation and interference with business after he "erroneously" misconstrued the firms charging rate for client ITT Hartford Insurance. Allen Rhodes claims that the auditor's comments led prospective clients and even judges to inquire about rumours that the firm had been indicted for fraud; was intending to file for bankruptcy; had laid off 17 lawyers; and was being sued by Hartford for several million dollars.

Important changes to the law covering goods bought in bulk have been put forward by the law commissions in England and Scotland. Under existing law a person who buys a specified quantity of goods forming part of an unidentified bulk – say 100 tonnes of wheat stored in a warehouse containing a much larger quantity – will not actually own the goods until they have been ascertained which is normally not until delivery. The thinking behind this is that a person cannot own something until they know precisely what it is. Although logical this causes problems for commodity traders in particular. The commissions recommend in future that buyers should be able to become owner not of particular grains of wheat but of a proportionate part of the bulk corresponding to the quantity bought and paid for. A solution of this type has been in operation in the US since 1906.

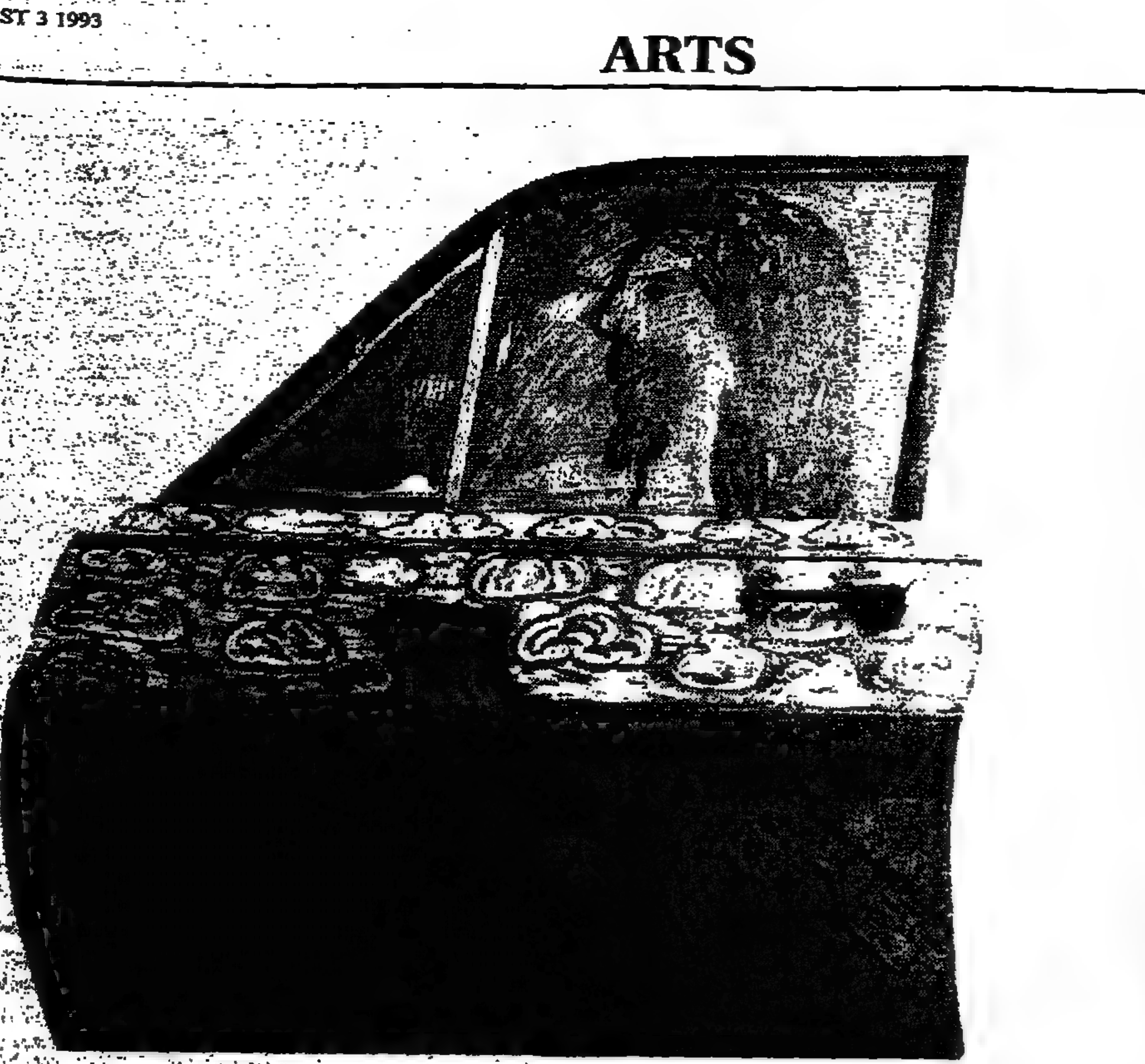
The resurgence of aboriginal art throughout Australia over the past 20 years is nothing short of a triumph for a people who until as late as the 1960s were believed to have been driven to the verge of extinction. The surviving Koori, Murri, Nyungar, Nunga, Yolngu and Anangu people with their 300 languages and culture rooted in the religious significance of the land, are now making considerable progress in their political and cultural endeavours. The survival of aboriginal art, and, most importantly, the development by the artists and their communities of ways of making it available to a non-aboriginal audience both inside and increasingly beyond Australia, have been crucial in this regeneration. *Aratjara*, now at the Hayward Gallery, is the largest exhibition of aboriginal art ever to be seen in Europe.

Approaching such unfamiliar work always presents difficulties. Does one read lots of books beforehand and go in armed with theory or just plunge ahead and hope for the best? I opted for the latter, making my first circuit guided only by my own eyes. Just looking, several features were immediately obvious – the stylistic differences between various regions, and a much wider range of subjects and styles than expected. It also ensured that initial "judgment" of the work was, as in any other gallery context, made on the basis of contemplating its form, composition and colour.

There were surprises – the large, brightly coloured canvas "My Country", 1992, by Ginger Riley Munduwalawala outstanding in a room full of ochre and brown cross hatched bark paintings by his fellow artists from Arnhem land, or the politically charged paintings, screen prints and photographs from the urban south east, stylistically familiar icons of an unfamiliar struggle.

In the rooms devoted to the art of the central and western desert, stylistic progression began to become evident, as images obviously still based on religious or ceremonial markings were painted first on composition board and then on canvas. The last room is filled with enormous paintings which although composed of signs and symbols "readable" to those who know their language also operate as superb examples of what we would term abstract art. Although study is needed to appreciate the full meaning of the images or the techniques used to create them, works such as the superb "Jardiwarnpa Jukurrpa" or "Fire Dreaming" make a powerful impact even before the full significance of the various elements of their composition is elucidated.

"Fire Dreaming", a communal work created by 21 women and seven men of the Yuendumu community, was specially commissioned for the exhibition and presents a "picture" of the community and its location, including its sacred sites, painted in the brightly coloured dotted patterns now identified as "western desert art". By its use of carefully selected images from the traditional ground or body paintings presented as a wall hung canvas, the piece demonstrates the developments aboriginal artists have made both formally in their work and in its mediation to the rest of the world.



Acrylic paint on a car door: 'Untitled', 1990, by Mavis Homes Petyarre from Northeastern Central Australia

Glimpses of another world

Lynn MacRitchie admires the work of aboriginal artists at the Hayward

What is most striking about the "Fire Dreaming," or about the work of Ginger Riley or that of Rover Thomas Julama, one of two aboriginal artists who represented Australia at the Venice Biennale of 1990, is the confidence and strength of purpose of the artists. Using the expanded palette that acrylic paints have made available to them, they have reinterpreted their traditional themes specifically in order that they may be seen by non-aboriginal eyes; the concept of "outsiders" seeing the paintings is thus inherent in their composition and execution.

Those who worry about "authenticity" or that the artists somehow lose out by showing in western style galleries or selling in the western style art market which flourishes in Australia should calm their fears. It is just for that market that these works have been adapted and created. And this is a good thing; it means that the aboriginal artists are in control. The images which they trade have been created for that purpose, passed by their elders and ritual guardians as appropriate for strangers' eyes. Other, secret, images continue to be used for traditional religious purposes.

These works designed for us still offer a glimpse into another world, where artists and their communities share a dynamic relation to their creation myths, the representation and observance of which gives purpose and meaning to their lives, and now also provides a useful tool to help redress the balance against the incoming society which has been dominant for 200 years. The creation of "Fire Dreaming" was accompanied by "Big dancing ceremony, men, women, girls ... really big business," according to Dolly Daniels, one of the artists who worked on it.

These remarkable pictures command respect, both for their beauty and sophisticated combination of the assumptions of our opposing cultures, permitting a glimpse of an ancient way of life our own ancestors tried so hard, but thankfully so unsuccessfully, to destroy.

Aratjara: Art of the first Australians, July 23-October 10. Hayward Gallery, London SE1.

Theatre/**Alastair Macaulay**

Beautiful Thing

When people ask "But where are the new plays?", there are several different kinds of answer to give. But as good a reply as any is simply to say "Try the Bush." The Bush Theatre, above the Bush Pub on the corner of Shepherds Bush Green, has been in the forefront of presenting new drama for years now. There are other places – e.g. the Royal Court – whose new plays may be more innovative in sheer writing and structure; but at the Bush (thanks to its artistic director Dominic Dromgoole) there is a real house style, and a real alertness to the way people live today. Play upon play there seems to be tapped right into the way things are, and audiences lap up each show.

Watching Jonathan Harvey's new play, *Beautiful Thing*, you can feel how easily its audience follows every current and allusion. Its action occurs in a modern block of tiny flats in South East London, and – like several recent Bush plays – it is mainly about adolescence. In particular, *Beautiful Thing* is a story of homosexual love between two teenage boys in next-door flats, but its most touching achievement is the gradual, oblique, funny, rounded way that it leads up to this. These boys are just the youngest of the play's five characters. What happens between them is affecting because you have come to know them in context.

Jamie lives with his mother, Sandra, a barmaid currently dating Tony, the latest in a line of boyfriends. Ste (the boy next door) lives with his brother and their violent father, who frequently beats him. Jamie's other next-door neighbour, Leah, is another teenager who leads a life of cheerful boredom only lit up by her obsession with the life and songs of the late Mama Cass. The walls are like paper. The play catches, very surely, the numerous tolerances and intolerances that are the fabric of daily life on any housing estate.

Jamie and Ste, who are the only characters who seem fully rounded from the very start here, are excellently played by Mark Letheren and Jonny Lee Miller. Body language, mastery of accent, facial expressions: all these are used with such psychological accuracy that you hang on every tiny event as if it were part of a thriller. (Just watch how often both boys avoid looking each other straight in the eye in Act One; and how naturally they do so in Act Two.)

There are weaknesses. The ending, charmingly sentimental, is too rose-tinted. There could be yet more tension – and, later, more release – between Jamie and his mother Sandra (Patricia Kerrigan); their big fight is too obviously choreographed. Both Sandra and Leah look at first like comedy-cartoon "types" (sassy, quarrelsome, outspoken cockneys), but it is part of Harvey's skill – part of his *point* – is that they turn out to be as complex and troubled as Jamie and Ste.

Interestingly, Kerrigan's acting gets more relaxed as her part grows larger; but Sophie Stanton, who acts Leah exactly as she acted in the Bush's last play, cannot handle the element of despairing escapism that becomes more startling as the play progresses. But the director, Hettie Macdonald, has brought out so much truth from Harvey's play that any passing flaws are but shadows. Like most of those about me, I followed the action with my heart in my throat – and, while applauding, blinked back the odd tear.

Alastair Muir

Patricia Kerrigan

Salzburg Festival/**Max Loppert**

'Così' and 'Zauberflöte'

In Salzburg, where Mozart's name figures on almost every street corner and in almost every shop window, it is a brave festival director who attempts to reinvigorate ways and means of Mozart opera production. Gerard Mortier, Salzburg artistic director, is indeed a brave man, and in his short period of office has already launched the attempt; but so far luck has not been with him much of the way.

Ideas tend to be fixed here, even more than in most front-rank operatic centres, by memories of "classic" stagings and performers past. A new-look *Idomeneo* a couple of years ago was not made welcome; and on opening night the production team of this year's new *Così fan tutte* – an opera about which Salzburg festival-goers feel particularly proprietorial – got a frenzied barracking, followed by mass rotten-egg lobbing in the German-speaking press.

Debacle, flop and catastrophe were just some of their terms of abuse. The whole enterprise was, it seems, born under the unluckiest of stars: one producer (Luc Bondy) lost before work ever began and a second (Guy Joosten) three weeks before opening night. The final choice, Erwin Piplits of the celebrated Serapion Theatre in Vienna, had originally come on board as Joosten's designer, and had himself never directed opera before. Tales of troubled rehearsals were echoing well beyond city limits before the festival began. And then Cecilia Bartoli, scheduled to make as Despina her much-awaited Salzburg debut, caught laryngitis, to be replaced on opening night by the sparky Elzbieta Szmytka.

In such circumstances the fair-minded British visitor longs to place himself on the side of the underdog. Unfortunately, the show itself puts some fairly formidable obstacles in his path. There is an intentionally dingy, downmarket quality to the design (drab modern dress; movable screens bare or else with scabbed paint-patches; a pair of MFI-style wooden tables and chairs the only furniture).

The purpose, it seems, was to scrape from the opera its sunny-skied upper-class-divertissement surface and analyse the potent, timeless emotional currents beneath. This is not intrinsically an unworthy aim – and, outside Salzburg, by no means an unfamiliar one. Here, however, the design colours, motifs and stratagems are at once too unvaried, too ill-suited to the awkwardly-shaped Kleines Festspielhaus stage, and far too poorly lit to allow any chance of fulfilment.

Until the later parts of Act 2, in which the strengths of an attractive young cast begin at last to register, the whole show seems of undergraduate calibre: ineptly plotted, fitfully characterised, uncertainly motivated in its search for novelty. Whether it is beyond rescue is a moot point – I myself should need persuading at gun-point to sit through Act 1, as it stands, a second time.

Certainly, though, there are basic musical strengths to build on. Christoph von Dohnányi's conducting of the Vienna Philharmonic is muscular yet flexible, highly responsive to singers' demands, if sometimes distinctly un-Mediterranean in temper. (Dohnányi, not a favourite of the Salzburg public, received an unjust share of the final-curtain boos.) And already Jennifer Larmore (a spunky, rich-toned Dorabella), Bruce Ford (a serious, impassioned, beautifully long-phrased Ferrando), Solveig Kringelborn (an inexperienced Fiordiligi of radiant potential), Jeffrey Black (a firm-voiced, slightly bland Guglielmo) and Ferruccio Furlanetto (Alfonso) have proved themselves worthy of the engagement.

More happily for Mortier, he has already one "classic" Mozart staging of his own to balance the books – the 1991 *Zauberflöte*, now magically revived under Bernard Haitink's superbly strong musical direction. People who know Johannes Schaaf's views of Mozart only from those four sourly misanthropic Covent Garden productions would find this show the most gratifying of surprises. The location is reinvented – this is a South-East Asian *Flute* of exotic detail yet strictly responsible scenic perspective, and it fills the vast Grosses Festspielhaus stage as though creating a new world.

In Act 2 the move from the local to the eternal is judged with extraordinary and moving acuity, yet the mood stays light. The cast, as youthfully fresh as the *Così* but far more rewardingly employed, is without weakness, led by Deon van der Walt's manly Tamino, René Pape's magnificent Sarastro, Ruth Ziesak's tender Pamina, Sumi Jo's gloriously unfettered Queen and – best of all – a warm-voiced, adorably local-accented, Papageno from Anton Scharinger. The Vienna Philharmonic and choir from the Vienna State Opera help make this biggest of big-house *Flutes* one of the most intimate, and one of the best.

Così performances until August 7, *Die Zauberflöte* until August 29

Concert/**Richard Fairman**

Handel's 'Deborah'

There is always an audience for the little-known works of well-known composers. While a record company knows it may struggle to find buyers for unfamiliar composers from Albeniz to Zemlinsky, there will be no trouble if the disc has Mozart or Handel on the label.

Even today there remain a few large-scale works by Handel that await successful recordings. The King's Consort recently performed and recorded the opera *Ottone*. Now it has turned its attention to the equally obscure *Deborah*, an oratorio. Obscure, but not unfamiliar. Handel, always ready to borrow from music he had written earlier, outdid himself in this score and whole sections from other previous works keep surfacing.

Deborah is a patchwork oratorio, expertly sewn together, the new positioning of choruses and arias often as good as the old. It won popular acclaim when it was first performed in 1733 and a fairly warm reception at the Proms on Sunday. With over 100 singers and instrumentalists taking part in the premiere it was the magnificence of the music which impressed early audiences ("tis excessively noisy", wrote one commentator).

Robert King added to that 100, topping up the choral numbers. In Handel's day the figures for choirs always look small against the instrumentalists to the extent that one wonders how the balance can have worked. King combined the Choir of New College, Oxford, with boy choristers from Salisbury Cathedral and was rewarded with some of the best choral singing that his group has had – a firm, decisive, sparkling ensemble.

This was all to the good, as the choral sections are among *Deborah*'s most striking moments. Choruses of Israelites are pitted against the Priests of Baal, rivalling each other with exhortations to war, for which the King's Consort armed itself with more rhythmic punch than the conductor usually delivers.

The heroine Jael, who seduces the enemy commander and nails his head to the ground with a tent peg, does not get very bloodthirsty music, but Susan Gritton endeavoured to give her some character. Yvonne Kenny was the prophetess Deborah and Michael George the bass Abinoam, both singing well but in need of more personality. James Bowman is fully at home with the Handelian style and commanded the music of Barak with easy nonchalance. The vocal decorations generally sounded as if they might have been improvised, but they added little of worth. Surely singers in Handel's day would have wanted to show off more?

INTERNATIONAL

ARTS GUIDE

AMSTERDAM

Concertgebouw Tonight: I Virtuosi di Roma play concertos by Vivaldi, Corelli and Boccherini. Thurs: Paul Magi conducts Lithuanian National Philharmonic Orchestra in works by Vasks, Grieg and Tchaikovsky, with piano soloist Jean-Marc Luisada. Sat: Roderick Shaw conducts Academy of the Begynhof in choral music by Bach. Next Mon: Thierry Fischer conducts Geneva Chamber Orchestra in Mozart, Haydn, Fauré, Ravel and Frank Martin, with violin soloist Marieke Blankenstijn. Aug 15: Gidon Kremer. Aug 17: Dmitri Hvorostovsky. Aug 21, 25: Royal Concertgebouw Orchestra (24-hour information service 675 4411, ticket reservations 671 8345)

ATHENS

Odeon of Herodes Atticus Fri and Sat: National Theatre of Greece in Sophocles' Antigone. Aug 11, 12: Peter Hall Company production of Aristophanes' Lysistrata (322 1459)

Epidaurus The annual festival of ancient drama in the 1400-seat amphitheatre at Epidaurus has performances on most weekends throughout the summer. This week's performances on Sat and Sun are Euripides' The Trojan Women, staged by Art Theatre Karolos Koun. Next week: Euripides' The Bacchae. Tickets are available daily at the Athens Festival box office (322 1459) or at the theatre of Epidaurus on Thurs, Fri and Sat (0753-22006)

CHICAGO

RAVINIA FESTIVAL

Tonight: Tony Bennett. Tomorrow: Dolly Parton. Thurs: Shlomo Mintz violin recital. Fri, Sat, Sun: Riccardo Chailly conducts Chicago Symphony Orchestra in three different programmes, featuring works by Webern, Beethoven, Stravinsky, Mendelssohn, Shostakovich, Haydn and Rimsky-Korsakov, with soloists including Yo Yo Ma and Maxim Vengerov. Next Mon: Victoria de los Angeles. Aug 12: Les Arts Florissants. Aug 13: concert performance of Fidelio. Aug 17, 18, 19: Israel Philharmonic. The festival runs till early September (Tel 312-728 4642 Fax 708-433 4582)

COPENHAGEN

Tivoli Tonight: Bøje Skovhus, accompanied by Helmut Deutsch, sings Wolf Lieder. Tomorrow: Copenhagen Chamber Soloists play works by Gade, Mendelssohn and Vivaldi. Thurs and Sat: Gary Bertini conducts Verdi's Requiem. Fri: Mariss Jansons conducts Oslo Philharmonic Orchestra in Stravinsky, Bartok and Richard Strauss, with viola soloist Yuri Bashmet. Sun: Dimitri Kitaenko conducts Danish Radio Symphony Orchestra in works by Mozart, Tchaikovsky and Prokofiev. Aug 12: Murray Perahia. Aug 17, 18: Chamber Orchestra of Europe. The summer concert season runs till Sep 19 (3315 1012)

LONDON

THEATRE

● Time of My Life: new play written and directed by Alan Ayckbourn, with cast led by Anton Rogers and Gwen Taylor. Opens tonight (Vaudeville 071-836 9987)

● Here: Michael Frayn's new play, directed by Michael Blakemore, about two people who move into an empty room and begin to construct their life together. Cast includes Iain Glen, Teresa Banham and Brenda Bruce. Till Sep 11 (Donmar Warehouse 071-867 1150)

● Godspell: Andy Crane and Gemma Craven star in a new production of the cult 1970s musical. Music and lyrics by Stephen Schwartz, directed by Lindsay Dolan. Previewing tonight, opens tomorrow, daily except Mon till Aug 30 (Barbican 071-638 8891)

● The Matchmaker: Prunella Scales and Frank Lazarus star in Thornton Wilder's exuberant tale of the inimitable Dolly Levi and her manipulation of the rich and curmudgeonly Horace Vandergelder into marriage. Opens tomorrow, final production of this year's Chichester Festival (Chichester Festival Theatre 0243-781312)

● Oleanna: David Suchet stars in David Mamet's much-talked-about drama, directed by Harold Pinter (Royal Court 071-730 1745)

● A Connecticut Yankee: New Shakespeare Company's revival of a rare Rodgers and Hart musical, performed in the garden setting of Regent's Park. In repertory with two Shakespeare plays, Romeo and Juliet and The Taming of the Shrew (Open Air 071-486 2431)

DANCE

Covent Garden Birmingham Royal Ballet winds up its season with Peter Wright's production of Sleeping Beauty tonight, followed by four performances of Kenneth MacMillan's production of Prokofiev's Romeo and Juliet. Ends Sat (071-240 1066)

Royal Festival Hall English National Ballet: this week's performances are devoted to Raissa Struchkova's production of Swan Lake, daily till Sat. Next week: Frederick Ashton's production of Prokofiev's Romeo and Juliet (071-928 8800)

BBC PROMS

In tonight's concert, Yakov Kreizberg conducts BBCSO in works by Rakhmaninov, Chopin and Tchaikovsky, with piano soloist Vladimir Ovchinikov. Tomorrow: Jerzy Maksimiuk conducts BBC Scottish Symphony Orchestra in Gorecki, Prokofiev and Beethoven, with violinist Anthony Marwood. Thurs at 19.00: Martyn Brabbins conducts BBCSSO in first London performance of Judith Weir's Music Untangled, plus works by Britten, Dvorak and Prokofiev. Thurs at 22.00: I Virtuosi di Roma play Vivaldi and Boccherini. Fri: Richard Hickox conducts first London performance of Robert Saxton's Viola Concerto (Paul Silverthorne), plus works by Rossini, Wolf, Strauss and Mendelssohn. Sat: Mark Wigglesworth conducts BBCSO in works by Strauss and Shostakovich, with soprano Maria Ewing. Sun: Matthias Bamert conducts National Youth Orchestra of Great Britain in Birtwistle, Musorgsky and Gershwin, with piano soloist Shura Cherkassky. Next Mon: Claudio Abbado conducts Gustav Mahler Youth Orchestra in Musorgsky and Bruckner, with Dmitri Hvorostovsky (Royal Albert Hall 071-589 8212)

STRATFORD

All three theatres have new productions opening in the coming week. A new promenade production of Julius Caesar, directed by David Thacker, opens on Thurs in The Other Place. Wycherley's Restoration comedy The Country Wife, directed by Max Stafford-Clark, opens next Tues in the Swan Theatre, with previews from tomorrow. Alec McCowen stars in Sam Mendes's new production of The Tempest, which starts previewing on Thurs in the Royal Shakespeare Theatre, first night next Wed. This month's repertory also includes The Merchant of Venice, King Lear, T.S.Eliot's Murder in the Cathedral and Goldoni's The Venetian Twins (0789-295623)

WASHINGTON

THEATRE

Kennedy Center The Phantom of the Opera: Andrew Lloyd Webber's musical, directed by Harold Prince. Daily except Sun till Aug 28 (202-467 4600)

Lansburgh Theater Pirates of Penzance: Interact Theater Company's Gilbert and Sullivan production. Opens on Thurs, till Aug 28 (703-848 2632)

Olney Theater Shadowlands: William Nicholson's drama based on the true story of C.S.Lewis and an American woman, opens next Tues for a four-week run (301-924 2739)

MUSIC

Wolf Trap Tonight: Reba McEntire, country music. Tomorrow: Dionne Warwick and Burt Bacharach. Thurs: National Symphony Orchestra plays music from Hollywood films. Fri: NSO provides live accompaniment for Hunchback of Notre Dame, the 1923 silent film of the Victor Hugo classic. Sat: NSO accompanies The Circus, Charlie Chaplin's last silent film. Sun: Pete Seeger and Arlo Guthrie, folk music. Mon: Neville Brothers, soul. Next Tues and Wed: The Temptations and Four Tops. Aug 15: Ray Charles (1624 Trap Road, Vienna, Virginia, 703-218 6500)

Blues Alley Jazz Supperclub Tonight: Jim Chappell, keyboards. Thurs till Sun: Ruth Brown, vocals/blues. Next Mon: Andy Narrel and Ray Obeido (1073 Wisconsin Ave, in the alley, 202-337 4141)

Merriweather Post Pavilion Tonight: Allman Brothers Band. Tomorrow: Al Jarreau and David Sanborn. Aug 15: Deep Purple. Aug 17: Beach Boys (301-982 1800)

Oregon Ridge Fri: Baltimore Symphony Orchestra open-air concert featuring music by Gershwin and Duke Ellington. Sat: BSO popular concert ending with fireworks (410-783 8000)

ARTS GUIDE

Monday: Performing arts guide city by city.
Tuesday: Performing arts guide city by city.
Wednesday: Festivals Guide.
Thursday: Festivals Guide.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(All times are Central European Time)

MONDAY TO THURSDAY

Super Channel: European Business Today 0730; 2230
Monday Super Channel: West of Moscow 1230.
Super Channel: Financial Times Reports 0630
Wednesday Super Channel: Financial Times Reports 2130
Thursday Sky News: Financial Times Reports 2030; 0130
Friday Super Channel: European Business Today 0730; 2230
Sky News: Financial Times Reports 0530
Saturday Super Channel: Financial Times Reports 0930
Sky News: West of Moscow 1130; 2230
Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

An unhealthy outcome

German reforms have hit drug sales, says Paul Abrahams

Mr Horst Seehofer, Germany's health minister, should be content. The reforms he launched in January to rein in spending on medicines have proved successful.

The German drugs market, last year Europe's largest and growing at about 10 per cent a year, has been thrown into sharp reverse. *Over the first five months of this year sales have fallen by 11 per cent.*

Mr Seehofer's counterpart at the economics ministry is, however, less likely to be enthusiastic. According to Mr Hans Joachim Langmann, chairman of E Merck, the family-owned German drugs group, "the world is falling apart" for drug manufacturers.

While the company may be overstating the case, two developments are likely: first, research and development could be adversely affected, particularly among small companies, *many of which say* they can no longer afford to develop new products; second, the reforms may trigger a restructuring of the sector.

The threat to the large groups' R&D spending seems minimal. *But many small and* medium-sized groups have not being able to absorb the fall in their sales and maintain R&D spending. The Bundes verband der Pharmazeutscher Industrie (BPI), the industry association, *says 41 per cent of the 126 companies* it surveyed in February planned to cut R&D budgets.

The package introduced by Mr Seehofer included an across-the-board 5 per cent price cut for prescription *medicines followed by a price freeze* for the same categories until the end of 1994. Prescription charges have also been raised, dampening demand.

But it has been Mr Seehofer's cuts in doctors' drugs *budgets that have really hit* sales. He set their 1993 budget at DM24bn, the same level as in 1991 and DM3bn below last year's figure. If doctors exceed their budget, the first DM280m excess will be borne by them personally.

Mr Walter Wenninger, managing director of the health-*care division of Bayer, Ger*many's second-largest pharmaceuticals group after Hoechst, says: "The threat of financial penalties [has] led to a truly awful change in prescribing habits, forcing doctors to cut both the number and value of their prescriptions."

The scale of the collapse in sales has been unprecedented. Dr Heinz Ried, managing director of domestic operations at Boehringer-Ingelheim, the pharmaceuticals group, says that, on present trends, Germany's drugs bill this year could undershoot by as much as DM6bn, or 25 per cent.

For some companies the initial impact of the reforms has been severe. The BPI survey of companies representing 64 per cent of the German market found that more than half had seen falls in domestic turnover *of 30-50 per cent in February.*

Small and medium-sized groups, which have little international exposure and often sell traditional herbal-based medicines, have been hit hard. Madaus, for example, a small family-owned group in Cologne, has seen domestic sales fall by 20 per cent in the *six months to June.*

The downturn has also hit the giants of the German industry. Bayer has seen its sales fall by 10 per cent so far this year after an increase of 9 per cent for the whole of last year. Boehringer-Ingelheim expects its domestic sales to drop this year by between 10 *per cent and 12 per cent, lead*ing to a reduction in turnover of up to DM100m.

The German subsidiaries of foreign groups are suffering too. Astra, the fast-growing Swedish group and seventh-largest drugs company in Germany, posted first quarter sales down by 16 per cent in what is its largest single market. Ciba, the Swiss group and fourth-largest pharmaceuticals company in Germany, reported a 17 per cent fall in German turnover during the first six *months of this year, compared* with an increase of 9 per cent in the whole of 1992.

The only groups to have benefited from the reforms are companies selling cheaper generic products the patents of which have expired. Doctors are turning to cheaper medicines to keep within their budgets. Dr Michael Steiner, vice-president of The Boston Consulting Group, management advisers, says generics groups, which include the German groups Ratiopharm and Hexal, have doubled their market share to about 20 per cent so far this year.

While the generics *companies have welcomed the* reforms the reaction of the drugs groups was initial incredulity. "For the first three *months the pharmaceuticals* groups couldn't believe it," says Dr Steiner. "They had invested millions of D-Marks to explain the merits of their drugs. But all that mattered for doctors was price. It was then they realised the impact of the reforms would be lasting."

The fall in sales has forced most groups to introduce *short-term working* and cut jobs. BASF Pharma, BASF's drugs division formerly known as Knoll, will cut its 3,785-strong German labour force by up to 15 per cent this year, while Boehringer-Ingelheim is making up to 500 of its 2,500 workers in Germany redundant. Madaus, the small German group, has cut its domestic workforce *by a third, from* 1,200 to 800.

The overriding concern for drugs companies is that Mr Seehofer could introduce further cuts in doctors' budgets next year. "Nothing is more encouraging than success. The government have seen that it costs nothing politically to push these measures through. We expect to be *squeezed* more," says Mr Martin Vischer, head of Ciba's pharmaceuticals division. Mr Seehofer has been able to head off doctors' protests by promising not to examine the issue of their fees.

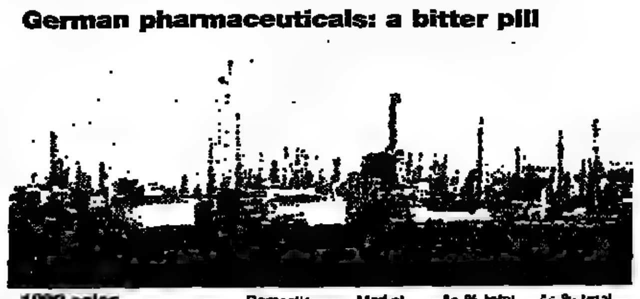
In any event, the structure of the pharmaceuticals industry will never be the same. "Costcutting can only go so far," says Dr Ried at Boehringer-Ingelheim. "The small and medium-sized companies with little business outside Germany will disappear or merge. They just won't have the means to develop new medicines."

Consolidation has yet to take place because pharmaceuticals companies have traditionally been expensive and their prices will need to fall before big groups become interested in buying.

Nevertheless, Mr Vischer at Ciba believes consolidation is inevitable: "Within two years, the landscape will be unrecognisable. The smaller companies will have gone. The generic manufacturers will still be winning market share and the research-based companies will be trying to adapt. And that will be painful."

The aim of reform was to force the pharmaceuticals groups to cut costs and deliver better value for money. Only those which manage to combine these twin imperatives will survive. The one unexpected outcome of reform has *been the severity of its impact* on small and medium companies, some of which are now in danger of being squeezed out.

German pharmaceuticals: a bitter pill



1992 sales	Domestic sales (DM million)	Market share (%)	As % total pharmaceutical sales of group	As % total group sales
Hoechst	1,550	6.0	18.2	3.6
Bayer	1,050	4.0	14.0	2.5
Boehringer-Ingelheim	975	3.8	23.2	18.4
Ciba	950	3.7	13.3	5.3
Boehringer-Mannheim	900	3.5	20.0	10.0
Schering	730	2.8	18.7	14.4
Astra	660	2.5	15.6	15.0
Ratiopharm	578	2.2	100	100
Bristol-Myers Squibb	550	2.1	5.8	3.3
Merck, Sharpe & Dohme	500	1.9	3.7	3.5

Source: Morgan Stanley Research

The chancellor's dilemma: an inside view

Don't pay the rich to be ill

Our social security system exists to help the poor. That should not be too expensive. We could guarantee the poorest 10 per cent of the population an income of £100 a week for £25bn. Yet the social security budget is more than £70bn, growing rapidly out of control, and still the streets are full of beggars.

This situation has occurred because we choose to perpetuate a powerful myth: that the social security system is an insurance system, to which we make contributions (like an insurance premium), as a result of which we are entitled to benefits if and when we become old, sick or unemployed. The result of this is that some £40bn of the £70bn budget is spent on the so-called contributory benefits – state pensions, unemployment and sickness benefit. A substantial part of this money goes to people who are not poor.

Why does a Conservative government dedicated to the principle of privatisation, run this large nationalised industry, an insurance scheme that ignores all the basic actuarial principles and makes a massive loss? The answer is partly historical and partly that, by giving money to people because they meet certain *conditions (old, ill, out of* work) rather than because they are poor, the government hopes to minimise the poverty trap.

The poverty trap – very high marginal rates of tax on the incomes of the poor – is an inevitable and unwelcome consequence of means-testing – giving money to the poor and taking it away as they get richer. Means-testing is necessary to target resources and keep down costs. But it does impose a high rate of tax on those trying to escape from poverty by their own efforts. Better, many believe, to tackle the causes of poverty, and leave people an incentive to work.

It is a beguiling argument. *The only problem is that it* has turned out to be incredibly expensive. If social security payments depend on anything but income, you end up giving away large swathes of a £70bn budget to well-off pensioners, well-off families with children, and well-off invalids.

But targeting is not the only thing wrong with the present system. It also faces the classic "moral hazard" problem that confronts all insurers: the existence of the insurance makes the condition insured against more likely. If you promise to pay people money when they are ill, they are more likely to become ill. If you promise to pay them if they become single parents, they are more likely to become single parents. The same is true, at the margin, even of disablement and unemployment.

> **A sensible transfer from better-off, supposedly unwell people to the genuinely poor is ruled out**

Insurance is based on the principle that an accident, like lightning, strikes a helpless victim. In most cases, this paradigm is accurate. Most of those who become unemployed, sick or disabled cannot change their condition by an act of will. But what about the marginal cases? When does a backache become so bad that you really have to stop work? And who decides that it is that bad – you, or your doctor?

We all face days when we *feel unwell. Those with highly* paid, interesting jobs are, unsurprisingly, more inclined to struggle into work than the lowly paid in boring jobs. So if the latter are offered a new benefit when they are unwell that is more generous than unemployment benefit or the state pension, some who previously chose to work despite chronic illness or disability will no longer do so. As more learn about the benefit, the number of claimants soars. To prevent malingering, the state *has to ask doctors to judge* whether these people are "really" sick. And the natural response to budgetary pressures is to tighten up the medical criteria – to a predictable political outcry.

The history of invalidity benefit – payable tax free to those who are "incapable of work because of illness or disablement" – shows what happens if you give people money because they are sick and ask doctors to decide who qualifies. The numbers who qualify have increased from half a million in 1978 to more than a million and a half today. And many of them are not poor.

The solution is simple. Don't give money to people because they are sick. Give it only if their sickness makes them poor. The advantages are immense: the *state does not have to judge* how sick they are; the incentive to malinger is completely removed; the money which goes to the well-off sick is saved; and the decision whether or not to work when somewhat unwell is taken from doctors and given back to the individual.

Unfortunately this radical solution – abolish invalidity benefit and use some of the money saved to make the means-tested benefits more generous – is blocked by the insurance myth, because invalidity benefit is one of the contributory benefits.

It is difficult to defend taking money away from the sick. It is even harder to defend taking from the sick a benefit that they have paid for. So a sensible transfer from better-off, supposedly unwell, people to the genuinely poor is ruled out.

The implications are grim. The government presides over a poorly targeted system in which benefits for the ill, for the disabled, for single parents, are growing at a frightening speed. The numbers, small 15 years ago, are now large enough to have a *macroeconomic impact.* Successive governments have, with the best intentions, drifted into commitments that are already crowding out other desirable public spending and that are ultimately unaffordable.

In the long run these issues must be addressed. But in the immediate future the most promising way of reining back the budget is to tackle the flat-rate benefits which, though not especially fast-growing, are very large.

An obvious target is the £6bn in child benefit, of which a big share goes to the better off. Means-testing it and clawing it back from them could easily be defended, as child benefit is non-contributory.

The government also has an opportunity to save some of the £27bn cost of the state retirement pension (a contributory benefit and therefore normally sacrosanct) because *it is required to equalise the* pension age for women and men. It should not hesitate to do so by raising the pension age for women to 65. Failure to grasp that nettle will send the worst possible signal to *the financial markets about* the government's willingness to tackle its budget problem.

But most important of all, the government must, in its long-term spending review, re-examine the basic principles governing our social security system. Until they are changed, the social security budget will remain an uncontrollable monster.

Bill Robinson

Next week: The missing oil revenue billions: The author is former director of the Institute for Fiscal Studies and was a special adviser to the former chancellor, Mr Norman Lamont

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

No simple regulatory answer for BBC

From Mr Robert Phillis.

Sir, The picture of the BBC by Robert Baldwin and Martin Cave (Personal View, July 30) is a painting done by numbers.

It misses the significance of our annual review, which reflects a clear separation of powers (*currently being carried out*) between the governors who, as trustees of the public interest, authorise the BBC's strategy and aims, and the management, which is responsible for their execution. And it does not recognise that the performance indicators being put in place are more comprehensive and sophisticated than mere audience measurement.

Instead it takes the view that we can top and tail a utility regulator and add the word "broadcasting" to the title. But there is more to public service broadcasting than regulator and client, consumer and supplier. There is more to the BBC than just broadcasting; it is a patron of the arts, a cultural entertainer. There is more to trusteeship than regulation. BBC governors are there to protect not the interests of a particular group of shareholders but those of the public as a whole. They and the management have a common interest in providing the range of services that will meet that trust.

It is hard to see how some three-tiered system could secure even the minimum necessary for compliance – still less to safeguard the BBC's independence (admired around the world if not always at home) as the governors have done for almost 70 years.

Robert Phillis,
deputy director-general,
BBC,
Broadcasting House,
London W1A 1AA

Maastricht message

From Sir William Nicoll.

Sir, When we called up the reporting of the Maastricht votes on our Financial Times database, we obtained every few lines the message:

"Press Alt-H for Help or Alt-Q to Quit."

Is this subliminal advice for government readers?

William Nicoll,
International Institute,
George Mason University,
4001 North Fairfax Drive,
Arlington,
Virginia 22203, US

Alternatively...

From Mr Neil Cossins.

Sir, It was exciting to read (Technology: "The little engine that could", July 29) that Mazda is to build cars with an engine which emits 600kg less carbon dioxide in a year, equivalent to planting 100 trees.

Wouldn't it be easier, and even more environmentally sound, just to plant the trees?

22 Franklin Street,
Reading RG1 7YA

Lysold plan 'best possible' for ensuring a sustainable future for Lloyd's

From Mr David Springbett.

Sir, On July 23 you reported Peter Middleton, chief executive of Lloyd's, being critical of me ("Names face writs to recover losses") for advising Names to vote against a resolution supporting the present management, and being sharply critical of improvements (involving Lysold plc) suggested for Lloyd's business plan.

The EGM resolution contains several topics, including "that the new management of Lloyd's should be allowed the opportunity to implement the Business Plan". I, and my group, believe that the plan can be improved and, as we are unhappy for it to be implemented on the present basis, we have suggested a vote against the resolution. It is unfair of Peter Middleton to interpret this as a vote against the present management, as Lysold wishes to collaborate with him and his team.

The statement that the Lysold solution is "commercially naive" is amazing. Surely corporate capital investors must be regarded as "commercially naive" if they were to prefer the exposure in the Lloyd's plan to the security of the Lysold barrier through the end of 1993. Corporate investors must contribute 1.5 per cent to the central guarantee fund, and be exposed to possible additional levies. Lysold proposes a further 1 per cent annual charge with no exposure to the past or to any further levies, including Lioncover (Cameron Webb), a liability that Lloyd's has not yet mentioned.

Lysold considers it impossible to run a successful Lloyd's *with half the membership* involved in disputes. Lysold's proposed solutions involve the creation of an insurance company, owned by Nantos and incorporating all its reserves, operated under Department of Trade and Industry rules and not under the absolute control of Lloyd's; a solution that the council cannot suggest but which can be proposed by the Names. These solutions include parameters for settling the litigation, closing open years, and providing a fair and affordable exit route for any Name at the end of two years.

It is really sad that, after months of work and consultations with leading City institutions, Peter Middleton should denigrate Lysold as naive and unacceptable. Lysold is a constructive and workable solution to the massive problems at Lloyd's.

Hopefully, Peter Middleton will yet see Lysold as the best possible evolution of the Lloyd's business plan, and the implementation of Lysold will result in a positive and sustainable future for Lloyd's. Support for Lysold is growing and, unlike the Lloyd's business plan, the Lysold suggestions are "consultative".

David Springbett,
The Abbey House,
Huntercombe Lane,
Taplow,
Berkshire SL6 0PQ

County of Cleveland enjoys favourable profile among electors

From Mr Bruce Stevenson.

Sir, May I take issue with one point in John Authers' otherwise accurate summary of the current difficulties in local government re-organisation ("Council reformer meets resistance", 26 July).

The County of Cleveland is not unpopular with its electors. The Mori opinion poll commissioned by the Local Government Commission established that Cleveland has *one of the highest levels of* county identity in all of the nine areas so far reviewed.

County identity in Cleveland is comparable, for example, with North Yorkshire and a little higher than other traditional counties such as Lincolnshire, Gloucestershire and Derbyshire. Incidentally, it is twice as high as county identity in Avon, created at the same time as Cleveland in 1974.

In another equally independent study, the University of Birmingham examined satisfaction with county council services. Although precise comparisons were impossible, given differences in purpose, *timing* and wording of different surveys, it did become clear that satisfaction with county services in Cleveland is among the highest recorded in England.

May I make it clear that we are nevertheless not arguing for the survival of the county council despite much misinformed comment to that effect. We wish to put right the mistakes of 1974. That is why we are supporting the creation of a new local authority to reflect the identity of Teesside, which was lost in 1974, and a second authority based on the present borough of Hartlepool, which also lost its general powers as a result of the 1974 re-organisation. It is interesting that, in the same Local Government Commission survey, levels of identity with Teesside were in fact even greater than those of the county council.

This is a proposition which strikes the right balance between cost and community identity. The proposition now has support from every large business organisation in the area, including the Confederation of British Industry, as well as hundreds of individual companies. It is supported by many community organisations including parish councils, senior health professions, organisations representing people with disabilities and thousands of individual Teessiders.

Bruce Stevenson,
chief executive and treasurer,
Cleveland County Council,
Municipal Buildings,
Middlesborough,
Cleveland TS1 2QH

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Tuesday August 3 1993

Opportunities after the storm

YESTERDAY'S agreement by EC finance ministers to recast the exchange rate mechanism was one of the more dramatic and desperate tactical retreats in the community's history. In delivering such a painful blow to French political *amour propre*, it may yet unleash deadly recriminations.

Certainly it would have been better if the community had faced up earlier to the fact that an inflexible ERM was likely to shatter on the rock of the Bundesbank's legitimate determination to preserve its reputation for controlling inflation during the testing post-unification period. It would have been more logical and should have been possible for the community to agree to reorientate the ERM, rather than waiting for the markets to blow it out of the water. Had Germany been willing to depart temporarily from the system, its remaining members would have been free to bring down their own interest rates in a co-ordinated fashion and the weekend's embarrassments might have been avoided.

But the most important point about the Brussels decision to move to broader fluctuation bands is that it is a lot better than the available alternatives: persisting with a policy which has driven Europe into a recession of quite unnecessary depth, or abandoning the system entirely.

Indeed, the progressive re-shaping of the ERM in the last year can be seen alongside the grudging public support for the Maastricht treaty as delivering an unforgettable message: that the community must not allow its dreams to run too far ahead of economic and political realities. If it does, then its core achievement of having constructed from the chaos of post-war Europe an effective single market and a base for more ambitious joint political projects will be placed in jeopardy. These are the stakes as the community adjusts to its new realities.

The good news is that monetary conditions can now be eased in Europe, even though it appears likely that significant interest rate cuts in Germany may still be some months away.

Unemployment rising

Mr Edouard Balladur, the French prime minister, has stated his determination to use his new freedom cautiously, but he will surely recognise the case for using it. With unemployment at 11.6 per cent and rising, and his colleagues on the French right positioning themselves for a presidential election race, he should take an early opportunity to lop a couple of points off interest rates, although he will seek to achieve this with as little damage to the franc as possible. Given the fundamentals of the French economy, this ought to be achievable. As rates fall across most of Europe, economic prospects will brighten, although a full return of confidence will not be possible without the return of fiscal discipline and economic momentum in Germany.

The more debatable question is how the EC should proceed from here. Finance ministers have set a target of January 1994 to return to narrow bands, at which point the Maastricht treaty says the second stage of Economic and Monetary Union should start.

Realistic objective

It is too early to judge whether this is a realistic objective. Rather than spending too much time considering the Maastricht timetable for Emu, member states should set about making a bigger success of their managed system of floating exchange rates than they have, in recent times, of running the ERM.

Prior to the formal creation in January of the European Monetary Institute, a committee of EC central bankers, this will not be a simple task. With the Maastricht criteria for economic convergence a less rigidly fixed lodestar than hitherto, member states now face squarely their own responsibilities, desirable in their own right, to pursue credible, low-inflation economic strategies.

If this easing of European monetary policy can be accomplished without an outbreak of ill-tempered beggar-my-neighbour devaluations, it may indeed be possible for the community to consider an early return to narrow bands. But whether or not this target is met, the community cannot avoid the search for effective mechanisms for monetary co-ordination. Rather than placing all its bets on simply being able to restore narrow bands next year, it should consider more far-reaching ERM reforms. Those who yesterday pronounced Maastricht and the Emu process inoperable ignore the fact that the single market remains incomplete, and sufficiently fragile for it not to be able to withstand sustained volatility in exchange rates between member countries.

In Britain, the weekend's events have occasioned some misplaced *schadenfreude*. More appropriate would be a sense of regret that Mr John Major is so politically damaged that he cannot even consider rejoining a more relaxed ERM, so resuming his position at the centre of the difficult negotiations still to come about the community's monetary arrangements.

A fresh start in schools

IT IS TOO soon to say with certainty that Sir Ron Dearing's report on the national curriculum and its assessment will bring an end to the confusion over testing in English schools. But the report contains many of the ingredients needed to address the justified concerns of the critics of the current arrangements. It also appears to hold fast to the basic and necessary principles of the government's education reforms.

The national curriculum, compulsory testing and the publication of school league tables are central to raising the standard of British education. The curriculum provides a set of educational targets which parents have a right to expect teachers to work towards. Testing at 7, 11, 14 and 16 measures achievement in meeting those targets. The publication of test results in league tables allows parents to compare school performance and provides a spur to schools that are failing to deliver.

The government's reforms ran into difficulty largely because of confusion over the purpose of testing. Simple tests were needed to assess individual pupil achievement so that school performance could be compared nationwide. Their creators tried to devise tests that could also diagnose individual pupils' needs, so increasing their complexity. The result was complicated tests requiring a complicated curriculum to sustain them. Teachers concerned about the use of test results in league tables were able to unite more moderate colleagues, parents, governors and even some of the government's advisers against the unwieldy and over-prescriptive structure.

Level of achievement

Sir Ron has gone to the heart of the problem with his proposal to focus tests on establishing the level of achievement of pupils throughout the country. Other purposes of testing, such as the diagnosis of individual pupils' needs, should be left to teachers. He also sensibly recommends that the compulsory tests should concentrate on basic skills: English, mathematics and science. These changes would create shorter and sharper tests, making it harder for teacher unions to protest over the workload involved.

They also allow the national curriculum to be slimmed down to occupy less than 90 per cent of the timetable in primary schools, and to three-quarters in secondary schools. Even at these levels, the curriculum will still dominate the day-to-day business of the classroom, perhaps excessively so. However, Sir Ron's report restores flexibility to teachers and allows freedom to tailor the timetable to pupils' individual needs.

Price of peace

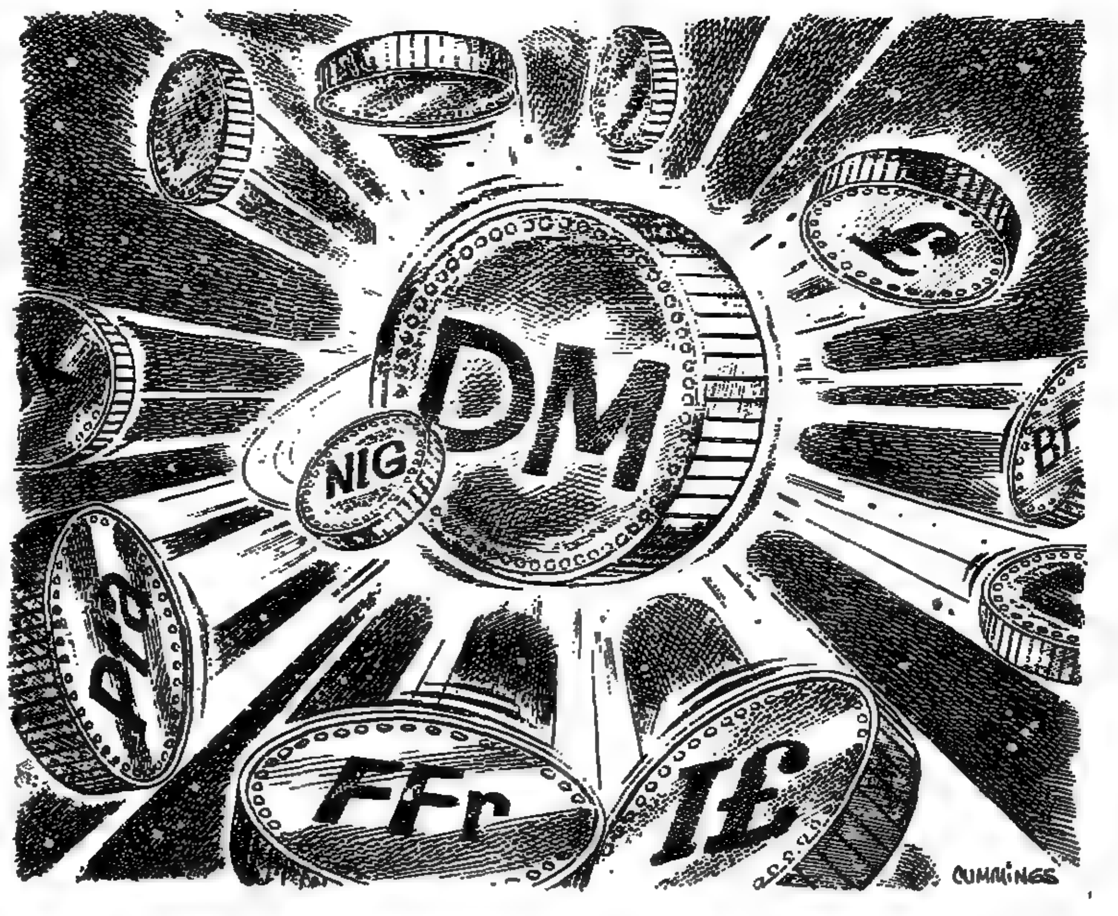
The government has wisely accepted Sir Ron's proposals without qualification. The decision raises questions over the future of Mr John Patten, the Education Secretary. Currently suffering from a viral infection, he stood fast against such concessions only a few months ago.

Because of that intransigence, the price of buying peace has risen. In accepting Sir Ron's recommendations, the government had to go one step further by abandoning league tables for the tests at 7 and 14. There is justification for this step. What matters to parents in choosing a primary school is the achievement of children leaving it at 11 to go on to secondary education. At secondary level, it is performance at the minimum school-leaving age of 16 that is important.

There is a danger, however, that this will be seen as a retreat on the principle of publishing league tables. The proposals announced yesterday offer the basis for a fresh start in school education. But they should not mark an end to the process of change which is so badly needed to raise standards in Britain's schools.

Can the European Community survive the pressures imposed by the ERM debacle, asks **Lionel Barber**

The school of hard knocks



In Brussels yesterday, senior European Community officials appeared in shock as they woke up to a world of floating European exchange rates. The explosion within the European exchange rate mechanism ends 15 years of relative currency stability and will play havoc with farm support prices, the Common Agricultural Policy and the EC budget.

"We have not experienced anything like this," said Mr Henning Christophersen, EC economics commissioner. "We may have to adjust farm prices every third day."

Sir Roy Denman, former EC ambassador in Washington, was one of the few looking beyond immediate setbacks and remaining sanguine. He argued that the case for exchange rate stability and monetary co-operation leading to a single currency is as strong as ever. Paraphrasing General Charles De Gaulle's message on June 18 1940, Sir Roy said: "Europe has lost a battle, but it has not lost the war."

As the dust settled, the list of political casualties grew. Mr Jacques Delors, president of the European Commission, who pleaded in vain on Sunday night for the D-Mark to leave the ERM, looks mortally wounded. For it was Mr Delors who seized upon the ERM as the vehicle for forcing European economies to "converge" in order to reach European Monetary Union (Emu) within a fixed timetable.

Mr Delors' world of grand designs and logical structures was suited perfectly to the expanding European economies of the 1980s, which paved the foundation for the single European market; but the pillars of the old order came tumbling down through the external shocks of German unification and a deeper-than-expected recession.

Now the Community must discover whether it has the strength and political resilience to recover its internal equilibrium, or whether more turmoil is in the offing. As one senior EC official put it: "The question is not whether we can move forward, but whether we avoid going backwards."

Commission officials are already starting to lay the groundwork for a rearguard action. The strategy will be discussed at a meeting of the full Commission on Friday, at which Mr Delors, still suffering from sciatica, will be present.

The first priority will be to stress that the ERM is not dead but remains "in suspended animation". All the EC finance ministers, including Mr Kenneth Clarke, UK chancellor, came down against suspending the entire ERM system when they met in Brussels on Sunday. There was a common understanding of the importance of trying to maintain currency stability.

Thus the old EMS structures remain intact; the same rules on intervention apply, albeit within much wider fluctuation margins; and there is at least the technical possibility that the one-time hard core of stronger currencies, including the German, French and Benelux, can be put back together again.

Meanwhile, the Commission will continue to press the case for economic convergence according to the timetable laid down in the Maastricth treaty, stricter budget discipline, and the preparation for the second stage of Emu, due to begin on January 1 1994. This involves tighter EC surveillance of European economies and the (largely symbolic) opening of the European Monetary Institute, the forerunner of the putative European Central Bank – assuming EC leaders can agree on a location and a president.

The second priority will be the single market. Largely ignored in recent months because of monetary turmoil, the 1992 project to allow the freedom of movement of goods, services, people and capital continues to gain in credibility.

Last week the Commission unveiled plans for harmonising the protection of design and intellectual property rights; this week, the risk is that *de facto* floating exchange rates could tempt member states into competitive devaluations which could undermine the single market.

The third priority is enlargement negotiations with Austria, Finland, Norway and Sweden. Community membership for the sceptical Nordics was always going to be a hard sell: the dent in the EC's image means it will be even harder.

The fourth priority will be Mr Delors' own white paper on competitiveness – the wide-ranging study on why Europe is failing to create jobs at the rate of the US and Asia, and what it can do to restore steady economic growth.

Mr Wim Kok, Dutch finance minister, said early yesterday that the Delors paper could serve as the basis for a much more profound reflection on the common push for Emu. In Mr Kok's view, the crisis in the ERM had exposed fault-lines within the Community. The deflationary pressures inherent in Maastricht's convergence criteria had pushed up unemployment in member states, raising threats to social stability. Some member states were clearly unwilling to pay the price of staying the course – a blunt reference to France.

It is now clear that it will be virtually impossible for most EC member states to meet the convergence targets on government debt, inflation and budget deficits by 1997, the date for monetary union. Mr Christophersen conceded as much yesterday when he agreed that the earliest date for Emu could only occur if a majority of currencies were in narrow ERM fluctuation bands by the end of 1994 – a prospect that seems remote.

Some in the Commission would like to see a loosening of the convergence criteria to make Emu more credible. But such a development looks unlikely in the face of Germany's insistence that domestic economic interests take precedence over European considerations, and that the price of giving up the D-Mark for a single currency must be price stability.

These twin imperatives were displayed by the Bundesbank's token interest rate cut on Thursday. This left the French franc at the mercy of the financial markets. The climax came on Sunday when the Germans would not let the French bully them into a *de facto* revaluation of the D-Mark or a public commitment to reduce short-term interest rates.

Mr Theo Waigel, German finance minister, spelled out on several occasions in his early morning press conference yesterday that the Bundesbank had gone out of its way to support weaker member currencies. "We have more than fulfilled our (ERM) obligations."

Such strong words betray a certain resentment over French tactics; but one European monetary official countered that the French and Germans had at least opened the crisis talks on Sunday with a joint proposal for the D-Mark to leave the system – only to have the deal founder on the opposition of the Dutch, followed by Belgium, Luxembourg and Denmark.

Thus, Germany is ready to compromise; but continues to be the dominant force within the Community. In the past 12 months, events such as the initial Danish rejection of Maastricht have raised questions about whether the treaty is the correct approach for accommodating Germany, or whether looser arrangements are required – for example, accelerating membership of former communist countries.

Commission officials argue that inviting Poland, the Czech Republic and Hungary, or even Slovenia, into the EC would destabilise the Community and could wreck uncompetitive eastern economies. But some German officials and other diplomats acknowledge that early membership could help to balance German might while strengthening the political cohesion of the former eastern bloc countries.

An equally profound questionmark hangs over the resilience of the EC itself, and whether it is simply "a fair-weather community", an institution which can function efficiently only in good economic times but which remains acutely vulnerable to external shocks – such as the war in former Yugoslavia.

This is the third time, after all, that the dream of European monetary union set out in the Werner report in 1970 has foundered. First came the 1973 oil-shock; then the second oil-shock in 1979. Now, German unification appears to have blown the project off-course.

Mr Christophersen is optimistic. Putting on a brave face yesterday, he rejected the UK government's assertions that there were "fault-lines" in the ERM. "I don't think the system was flawed, but the system was more fragile than we thought." He could well have been talking about the Community.

The fault, dear Gaul . . .

Ian Davidson on a revival in cross-Channel prejudice

The crisis in the European Monetary System raises new doubts whether the central core of the Maastricht treaty, the programme for economic and monetary union, can be implemented as prescribed. These doubts are partly technical, but only partly. The more serious question is whether Europe is emotionally ready for the idea.

At a technical level, European Community finance ministers have been able to rescue the Exchange Rate Mechanism after a fashion. The widening of the bands may be sufficient to accommodate both the Bundesbank's commitment to a tight monetary policy and the rest of Europe's need for monetary relaxation. But this salvage operation leaves unresolved the problem of how, or indeed whether, the EC is to take the next steps towards monetary union.

The more serious doubts are political. The monetary crisis has stirred up powerful populist emotions in member states – often nationalist and even xenophobic – so that it is quite difficult to imagine conditions in which voters would acquiesce in surrendering control over their national currencies.

These reactions have been particularly acute in France. In itself, this is not surprising: on one hand, the franc has been the prime target of market pressure; on the other, the *franc fort* has been invested with all the symbolism of national virility in being made the central plank of economic policy by all governments, on the left and the right, for the past 10 years.

If the intensity of popular interest is measured in column inches, the French carry off the prize. Last Saturday Le Monde gave the lead story and four inside pages to the monetary crisis. Yesterday Figaro gave it the lead story and nine inside pages. By contrast, yesterday's Financial Times gave it only the lead story and two inside pages.

What is more surprising about some French comment has been its atavistic character, notably from some people who should know better. The former socialist foreign minister, Roland Dumas, described Sunday's settlement as a victory for *les anglo-saxons* who had opposed European integration from the outset. Even Raymond Barre, a former conservative prime minister and internationally known economist, has insinuated that the speculation against the franc was indirectly orchestrated by British or American authorities.

Even Le Monde has sought to perpetuate the notion of a deep gulf between France and the Anglo-Saxons. According to its editorial on Saturday, the European currency crisis was a confrontation between two cultures: the continentals, committed to dirigism, and the Anglo-Saxons, viscerally attached to liberalism and free trade; and within this antithesis, there is the opposition between the French commitment to fixed exchange rates and the Anglo-Saxon belief in floating exchange rates.

This contradiction is all the more poignant, in the picture painted by Le Monde, because France is isolated. It has long preached the cause of managed exchange rates, but it has great difficulty in recruiting allies for its point of view because the Germans are so ambivalent.

It is a touching picture, but strangely anachronistic and unreal. French traditions, no doubt, used to be enthusiastically dirigiste, but that was some time ago. The revolutionary fact about the past 10 years has been France's comprehensive conversion to market forces: privatisation, deregulation and, above all, to the removal of exchange control. Nobody would deny the France's long-standing commitment to fixed exchange rates. But to equate it with a dirigism that has long been abandoned is simply absurd. It shows that, in moments of high stress, ancient reflexes reassert themselves, even when real conditions have changed.

By the same token, the picture of the *anglo-saxons* as unanimously wedded to floating exchange rates is baffling. Has Le Monde forgotten that John Major was totally committed to British membership of the ERM until Black Wednesday, less than a year ago?

The real fault-line is not between the French, united on dirigism, and the British, united on free trade. It runs through both countries, between the pro-Europeans and the nationalists; Norman Lamont and Philippe Séguin, Norman Tebbit and Jean-Pierre Chevènement are all on the same side.

OBSERVER

Major rethink

■ As their continental brethren survey the shards of the EMS, British politicians have been exceeding even their usual propensity to rewrite history with the latest round of "I told you so's".

Euro-enthusiast Kenneth Clarke indulged in it on the way to Brussels on Sunday, while John Major recalled his warning last autumn of the "fault-lines" which had led to sterling's ejection. Anyone would have thought the lot of them had stage-managed Black Wednesday down to the last second – instead of spending oodles of taxpayers' money trying hopelessly to man the defences.

Lady Thatcher, by contrast, has something of a genuine claim to gloat. Observer recalls an animated conversation with the Iron Lady more than three years ago when she detailed how German reunification would rip the system apart. But she will be disinclined to trumpet her prescience; it was, after all, she who failed to talk her then chancellor, Major, out of the idea, hence landing Britain in there in the first place.

Collector's item

■ Memo to Roger Regan, new chairman of Spring Ram, the bathrooms and kitchens group, which is being stalked by predators. Good luck with the spring cleaning and don't take any nonsense from founder Bill Rooney. And one small tip – don't cancel the company Christmas card sent to shareholders. The limited edition prints by Pennine landscape painter Peter Brook are one of the few reasons many small shareholders retain any loyalty to the firm.

New European

■ Only an eternal optimist would think that the events of the past few days make an ideal backdrop for the relaunch of yet another pan-European venture. However, John Drew, who headed the UK office of the EC Commission until a few months ago, is one such.

As director designate of Europa Times, a monthly which claims to be Europe's largest circulation English language newspaper, Drew has big plans. The paper, which has been going for a year, is bankrolled by Felix Grovit, a Brussels-based business man who has made a fortune out of his 100-plus network of bureaux de change in 11 countries.

Since it is handed out free, a circulation figure of half a million readers has to be taken with a pinch of salt. But its owner, who was said to be interested in buying The European at one stage, feels the time is ripe for expansion and Drew is the man for the job.

'Norman has a theory that the dinosaurs became extinct when they tried to create an exchange rate mechanism'

Drew, who is already visiting professor of European management at the Open University and president of the Institute of Linguists, promises to give the new venture his best shot. Having spent his whole career trying to get the European message across, he says that there is nothing wrong with the concept, it's simply been put over badly.

Plumber on board

■ The City's blue-chip merchant banks often like to lend their directors to the boards of companies performing below par. So perhaps the arrival of Jeremy Lancaster, chairman of Wolseley, as a non-executive director of Kleinwort Benson, proves that it can be a two-way process.

Kleinwort, currently searching for a chief executive, has seen better days whereas Lancaster is one of Britain's more successful industrialists. Given that he is also the son of Wolseley's founder, he knows what it's like to be brought up in a family firm which needed to change its ways. His success during his 17 years at the Wolseley helm has been based on great attention to detail and a restlessness which has kept his management on their toes. However, getting this simple message across to the other 22 directors around the Kleinwort boardroom table could prove a challenge. Hope he didn't take the job just because he was flattered by Kleinwort's interest in him.

In full sale

■ If the leaders of former Soviet countries are seeking entrepreneurial pace-setters, they need look no farther than their trainee sailors competing in the tall ships race.

When the 130 vessels arrived at the end of the first leg in Bergen, their crews mostly turned in for a rest. But not so those of the Russian and Polish ships.

Not only on the decks but all along the dockside, they had soon set up stalls and were trading all manner of things for Norwegian kroner. The dearest items were clothing, with uniform jackets and caps going at NKr150 or so. Among the cheapest were hammer and sickle badges, priced the same as jam pancakes at NKr15 apiece.

Adding up

■ If a pair of dinosaurs had purchased a 100-million-year life annuity paying out $416.66 each month, how much dosh would their heirs have received to date?

The answer is half a trillion dollars ($500bn), which is also the value of the assets Merrill Lynch now holds in custody on behalf of its clients worldwide. Celebrating this target achieved earlier in the year, the American broker has been holding an internal competition to see who could make sense of such a big number.

So far, Observer's favourite calculation is the one that concludes that half a trillion is the sum the American Indians would today find in their cash management account had they invested the $24 received for the sale of Manhattan at a rate of 6.69 per cent per annum.

Bi-word

■ When is the ERM not an ERM? When it's an ERM-aphrodite.

FINANCIAL TIMES
Tuesday August 3 1993

Mediators say threat of air strikes could lead to breakdown of peace talks

US increases pressure on Serbs

By Laura Silber in Geneva and Gillian Tett in London

US OFFICIALS yesterday sought to step up pressure on Bosnian Serbs to halt their military advance by presenting to a Nato conference in Brussels plans for tougher military action, including the use of air strikes.

International mediators warned in Geneva that the threat of air strikes, and the upsurge of fighting in Bosnia, could stall the peace process altogether.

In Sarajevo, Mr Ejup Ganic, the Bosnian vice-president, said Serb forces had captured Mount Bjelasnica, a key peak which overlooks the besieged capital, in a "huge offensive".

The attack prompted Mr Alija Izetbegovic, the Bosnian president, to threaten to pull out of the peace negotiations if the Serbs did not give up their latest prize. Mr Radovan Karadzic, the Bosnian Serb leader, was reported to have agreed to surrender the mountain to United Nations control.

Speaking in public for the first time since the talks started last week in Geneva, Mr Izetbegovic called for international military action in the area. "We are carrying on talks without counting on any kind of military action ... although we think it would be high time for the Americans and international community to come to our defence," he said.

Mr Karadzic warned that the Bosnian Moslem delegation had been swayed to hold out for air strikes by the threats of military action from the Clinton administration.

As the Nato meeting began, President Bill Clinton said in Washington he expected the allies to agree on a joint strategy. "I don't believe the allies will permit Sarajevo to either fall or to starve," he said. "I think we'll have a common position."

Scepticism appeared to be mounting among the ambassadors from the 16 Nato countries that the latest round of peace talks would achieve a solution.

Although some Nato officials indicated that the US had broad support from the allies for increased military action, they said a firm decision was unlikely to be made after one day's talks.

Disagreement remains over whether the action should be limited to protecting the Nato ground forces and their humanitarian efforts or extended to enforcing the safe havens. There is also disagreement over whether air protection would require a fresh UN mandate.

Some US officials indicated that the main opposition to the US plan had come from France, which, together with Britain, has consistently expressed fears that increased military involvement would endanger ground troops.

But amid signs that Britain was moving to support the US position, Mr Malcolm Rifkind, British defence secretary, said on a tour of British forces in Bosnia that he was "very sympathetic" to the US position.

About 60 US, Dutch, British and French ground attack aircraft are at Italian air bases. The British Ministry of Defence said yesterday: "We are fully prepared to fly if asked to do so".

Japan's prospective coalition disagrees over senior posts

By Robert Thomson in Tokyo

THE SEAMS in Japan's prospective seven-party coalition are already showing, with disagreements over appointments to a new cabinet expected to be installed this week.

Mr Morihiro Hosokawa, the coalition's candidate for prime minister, returned from a mountain retreat yesterday to find the parties unable to decide on senior ministerial posts.

A senior official of one party admitted that their indecision was partly because they have known only opposition and are daunted by the thought of running the country.

The seven groups range from the left-leaning Social Democratic party, formerly the Japan Socialist party, to Komeito, the political arm of a Buddhist group, and to parties comprising former members of the Liberal Democratic party, which has ruled the country since 1955. Mr Hosokawa's difficulty in putting together a cabinet has stirred public concerns that the coalition could be indecisive after taking office.

A prime minister will be chosen at a parliamentary session on Thursday. The seven parties have the numbers to ensure Mr Hosokawa will form a cabinet.

SDP officials, already under attack from within the party for joining the coalition, do not know where to place influential party ideologues who are considered entitled to a senior post, but are without the experience for positions such as foreign minister.

The party suggested that Ms Takako Doi, former SDP leader, should become speaker of the lower house of parliament, but she has declined, intimating that she is "not appropriate" for a position of such heavy responsibility.

Mr Hosokawa, leader of the Japan New party, will be standing against Mr Yohei Kono, the LDP leader, in the parliamentary vote on the premiership. Unless the coalition falls apart in the next few days, the LDP will be joining the Japan Communist party in opposition.

Mr Ichiro Ozawa, former LDP secretary-general, who was asked by Mr Hosokawa to join the cabinet, yesterday said he did not want a position. Mr Ozawa is running the Japan Renewal party, one of the coalition members, and said he would prefer to remain behind the scenes.

"In theory, the government should last for four years, but we will have to see," said Mr Ozawa, who is thought to be planning for another poll within a year.

Mr Kono yesterday presided over the appointment of a new LDP executive, which he said must be ready to lead the attack against a coalition government. The choice of relatively young MPs for the executive is intended to give the impression that the party has reformed itself in the wake of recent scandals.

Mixed signs for US economy

By Nancy Dunne in Washington

THE PACE of US economic activity quickened slightly in July, but recession overseas continued to take a toll on US exports and the vulnerable manufacturing sector, according to the purchasing managers index.

The index, a closely watched barometer of the health of manufacturing, rose to 49.5 per cent last month from 48.9 per cent in June. A reading below 50 per cent suggests the manufacturing economy is generally declining.

However, a separate report from the US Commerce Department yesterday said construction spending, propelled by a big increase in government spending, rose by 1.2 per cent in June. That was the largest gain this year, following an increase of 1.1 per cent in May.

The purchasing managers index, based on surveys by the National Association of Purchasing Management, had mixed signals for the economy. Exports are weakening but so are imports, which dropped for the third time this year. There was some indication that that fall reflected a lessening of imports from Japan due to a strong yen.

The new orders component of the index began to climb back in July, rising sharply to 53.1 per cent. However, another component, measuring "orders backlog", registered its first net decline this year. The inventories index fell to 46.7 per cent, down from 48.2 per cent in June.

Mr Dan Seto, an economist with Nikko Securities, warned of continued stagnation in the economy as long as manufacturing business continued to restructure.

The improvement in construction spending stemmed largely from increased outlays for highways and other government projects. Spending in June rose to a seasonally adjusted yearly rate of $460.1bn – a gain of $5.5bn.

Franc tested

Continued from Page 1

against many other currencies strongly in recent weeks, fell 3 pfennigs on the day to close at DM2.5550, as dealers speculated that the UK could cut base rates from 6 per cent.

At the start of European trading, the French franc came under strong selling pressure. It fell as low as FFr3.55 against the D-Mark, well below its old floor of FFr3.4305. But it later recovered to close at FFr3.505, some 8½ centimes down on the day.

The Danish krone suffered a more substantial fall, dropping by about 6 per cent against the German currency at one stage, and forcing the Danish authorities to raise their 1-month interest rates to 25 per cent. The currency later appreciated to a London close of DKr4.0387.

EC struggles to heal split

Continued from Page 1

doesn't." Inflation and money supply growth had been running contrary to developments elsewhere, he emphasised.

Mr Schlesinger added: "Naturally, we have also gained rather more room for manoeuvre for our own policies."

Reinforcing the point, Mr Waigel said people had to accept that interest rate cuts were decided in Frankfurt – and even sought to link Germany's role in the currency compromise with its intention to have the European Central Bank sited in Frankfurt. "Everyone knows how determined we are on this matter," he said.

Mr Waigel said EC finance ministers would reconsider whether the ERM fluctuation bands could be narrowed again later in the year.

Mr Henning Christophersen, EC economics commissioner, conceded that it would be difficult for a majority of member states to form a monetary union by 1997, since the treaty stipulated that a majority of member states needed to be within the ERM's narrow fluctuation bands for at least two years.

But the Danish commissioner raised hopes that the wider fluctuation bands might allow member states, including France, to lower interest rates and stimulate economic growth. Modifying recent criticism from Brussels, he singled out the UK's economic recovery after leaving the ERM last September.

The European Commission will convene a special meeting on Friday to discuss the implications of the ERM crisis.

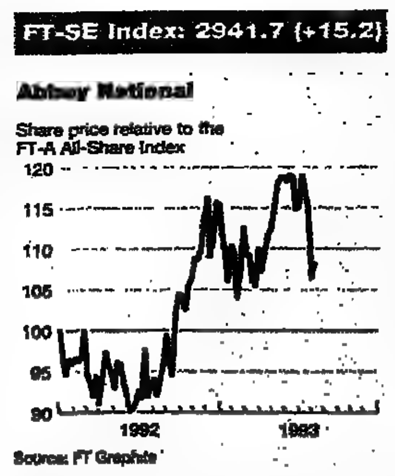
THE LEX COLUMN

Judgment day

Having finally summoned up the courage to cast off the shackles of the ERM, European governments are surprisingly reluctant to use their new freedom. Perhaps the lack of news on interest rate cuts yesterday means finance ministers still do not understand it was unbearably high interest rates – and not speculators – which brought the system to its knees. Perhaps, like Britain last autumn, they must endure a period of nervous anxiety about inflation and the exchange rate before setting policy firmly on course for recovery. That could explain the muted response of equity markets to the weekend's developments. Granted Danish shares rose by 4 per cent, but the Paris market was up by only 2 per cent. In Madrid and Brussels the gains were even less.

Unless governments deliver the hoped-for interest rate cuts reasonably soon there is a risk that even such a modest overall advance could stall. None of the markets with newly liberated currencies is likely to show the kind of spurt London put on after the UK left the ERM. To a greater or lesser degree Sunday night or something similar was discounted in advance. That only adds to the risk of disappointment. It may well be that the French franc has further to fall as interest rates are cut. Sterling began to recover only after rates had fallen to 6 per cent and some real economic recovery was in sight. But the French authorities would be deluding themselves if they thought holding interest rates steady would support the franc for long. Foreign exchange markets would then be back to worrying about growth forgone, rising unemployment and a mounting budget deficit. Sooner or later, lower short-term rates will have to come.

FT-SE Index: 2941.7 (+15.2)



Germany

Those who suspected that the Bundesbank was never keen on the single currency project will doubtless view the events of the past week as significant. Germany is now free to pursue an anti-inflationary policy in support of the D-Mark without a gaggle of aspirant strong currencies struggling in its wake, which is probably what some in Frankfurt wanted all along. The effective collapse of the ERM will in all probability slow the pace of German rate cuts. This is in part because the massive intervention in support of the ERM will make the money supply data pretty grim reading in the next few months. But the recession is still biting deep in Germany. Inflationary pressures, and interest rates, will be easing by the autumn.

As with the UK, the appreciation of the D-Mark will be at least partly offset by stronger export markets. Indeed, exports are likely to lead the German recovery next year,especially as the D-Mark has been been falling against a strong dollar and stronger yen in 1993. Other components of growth will, however, offer little help. The public sector deficit is already too high, while wage growth will be sluggish, limiting domestic consumption. And with capacity utilisation low, there is little incentive to invest in plant. Exporters may thus be the most attractive area of the stock market, whatever the short-term rise in the currency may suggest.

UK markets

It was perhaps too much to hope that the chancellor could resist the temptation to say "I told you so". Still, at least Mr Clarke managed to bite his tongue until Sunday morning, which showed some restraint. The glee in Whitehall seems justified, and not just because it covers the UK's embarrassment over last September's undignified exit from the ERM. Once the shock of the last few days' events has passed, continental interest rates outside Germany should start to fall. That would land the UK in the happy position of having to decide between an appreciation of sterling or falling interest rates. Given that events are already flowing the chancellor's way, he may be tempted to hold back on interest rates until the autumn.

There are other benefits for the UK too. With sterling firm, and a further eventual cut in base rates probable rather than possible, gilt yields may well fall too. A revival in continental markets will improve export prospects for British companies, albeit at a somewhat higher exchange rate. UK growth is thus likely to be stronger next year than previously estimated – with domestic consumption taking a larger slice of the total.

As there is little sign of inflationary pressures, all that augurs well for equities. The market has been nervous with equity yields below 4 per cent, but with bond yields and interest rates around their lowest levels for a generation, such fears may ease. That said, investors still have to get through the company reporting season in September, which may show little sign of the much-trumpeted recovery. And however unlikely it may seem now, any spark of renewed inflation would have the markets running for cover.

Abbey National

Abbey National's interim results are in stark contrast with those of Lloyds Bank which kicked off the current bank season on Friday. Whereas Abbey has been busy increasing both its loan book and its gross operating income, Lloyds has been cautious on the former with results that have disappointed the stock market on the latter. But Lloyds boasts a net return on equity of 21 per cent; at Abbey, the figure is a modest 10 per cent.

In pushing Abbey's shares 2 per cent higher yesterday, the market appears to be signalling it is growth prospects which matter most. But Abbey's shares are partly rebounding after a period of weakness. Its increased mortgage market share has been achieved at the expense of greater recourse to wholesale funding with a consequent squeeze on margins. Since the mortgage market is highly competitive, this pressure could well continue.

A lower tax rate as the need abates for provisions on French lending will help increase Abbey's return on capital. But Abbey's claim that it needs a generous capital ratio because of its unfamiliar name, particularly in international bond markets, is starting to look lame. That raises the strategic stakes. Management has not thus far covered itself in glory with its attempts to diversify – witness yesterday's blushes over French commercial property loans. If it cannot invest surplus capital wisely, Abbey should soon become bolder about returning it.

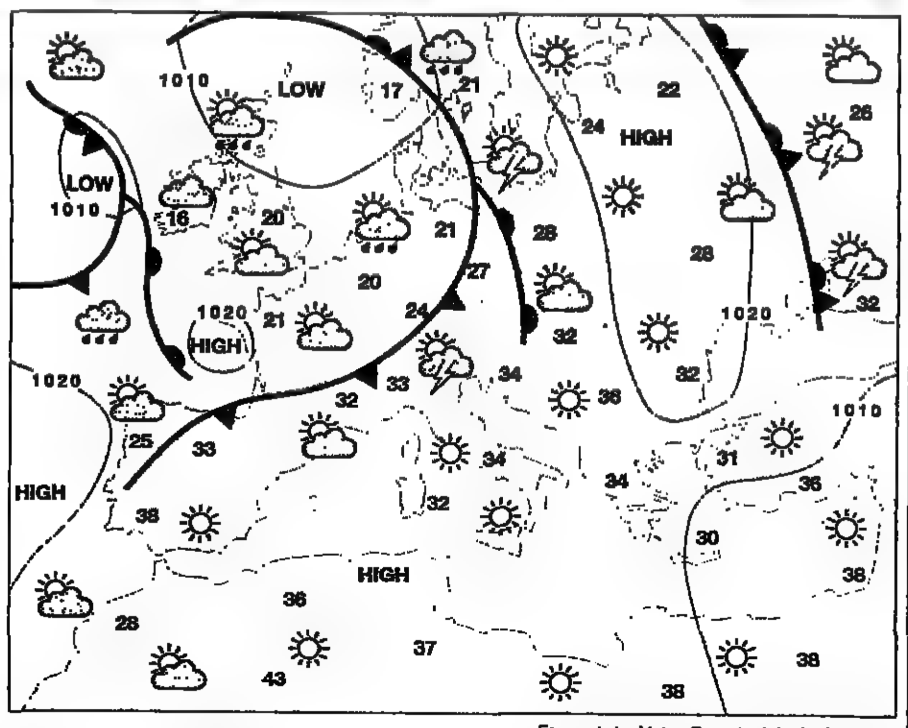
FT WORLD WEATHER

Europe today

A weak cold front will move east, allowing cool air to again spread over north-western Europe. However, conditions will be an improvement on those experienced during July. Most of England will have sunny intervals with temperatures around 20C. The Low Countries will also be near 20C with a few showers possible in northern areas. France will have a comfortable day with highs from 21C in the north to about 30C in the south. Southern Europe will continue hot. Temperatures of 30C-35C will be common in Spain, Italy, and the Balkan countries. In central Spain and northern Greece, maximum temperatures will exceed 35C. Showers will expand from the south-west into northern Europe where temperatures will remain around 20C.

Five-day forecast

Low pressure moving slowly over Scandinavia will bring showers with some thunder. High temperatures will be mainly 17C-21C. An Atlantic low is expected to reach Ireland on Wednesday and will move into southern England on Thursday, accompanied by heavy rain and some thundery showers. Thunder storms are likely in parts of France on Thursday.



Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Maximum Celsius								
			Berlin	fair	28	Chicago	fair	27
			Bermuda	shower	30	Cologne	fair	23
Abu Dhabi	sun	43	Birmingham	fair	20	Copenhagen	shower	21
Accra	sun	28	Bogota	shower	18	D' Salaam	fair	30
Algiers	clear	34	Bombay	thund	28	Dakar	thund	30
Amsterdam	fair	20	Bordeaux	sun	26	Dallas	fair	37
Athens	sun	35	Brussels	fair	21	Darwin	sun	31
Bangkok	thund	33	Budapest	sun	32	Delhi	fair	37
Barcelona	fair	29	Buenos Aires	sun	19	Dubai	sun	42
Beijing	fair	30	Cairo	sun	36	Dublin	cloudy	19
Belfast	shower	18	Cape Town	shower	14	Dubrovnik	sun	34
Belgrade	sun	34	Caracas	shower	27	Edinburgh	fair	19

Faro	sun	30	Majorca	sun	32	Rangoon	thund	30
Frankfurt	fair	27	Malta	sun	35	Reykjavik	fair	15
Geneva	sun	29	Manchester	fair	18	Riyadh	sun	45
Glasgow	fair	18	Manila	thund	30	Rome	sun	31
Hamburg	shower	20	Melbourne	shower	11	S' Francisco	sun	29
Helsinki	sun	22	Mexico City	shower	22	Seoul	fair	27
Hong Kong	thund	31	Miami	fair	33	Singapore	fair	32
Honolulu	sun	32	Milan	sun	33	Stockholm	fair	21
Isle of Man	fair	17	Montreal	fair	24	Strasbourg	fair	27
Istanbul	sun	30	Moscow	fair	20	Sydney	rain	13
Jersey	fair	20	Munich	fair	28	Tel Aviv	sun	33
Karachi	fair	34	Nairobi	fair	25	Tokyo	thund	27
Kuwait	sun	48	Naples	sun	33	Toronto	fair	24
La Paz	fair	17	Nassau	fair	33	Tunis	sun	34
Las Palmas	sun	26	New York	fair	32	Vancouver	sun	28
Lisbon	sun	29	Nice	sun	27	Venice	sun	31
London	fair	21	Nicosia	sun	37	Vienna	fair	31
Los Angeles	sun	31	Oslo	rain	16	Warsaw	sun	28
Luxembourg	fair	23	Paris	fair	23	Washington	cloudy	31
Lyon	sun	29	Perth	shower	17	Wellington	shower	8
Madeira	fair	24	Prague	fair	29	Winnipeg	fair	20
Madrid	sun	37	R' de Janeiro	fair	25	Zurich	sun	27

FINANCIAL TIMES
COMPANIES & MARKETS
Tuesday August 3 1993

INSIDE

Fondiaria rights issue approved

Shareholders in Fondiaria, Italy's third biggest private-sector insurance group, yesterday approved a L1,058bn rights issue. Gaic, the listed holding company which controls Fondiaria, announced it would partly subscribe to the issue. Page 17

Abbey National advances 11%

Abbey National, the UK home loans and banking group, has increased pre-tax profits by 11 per cent to £301m, against £270m a year ago. Its balance sheet was boosted by rapid growth in wholesale-funded fixed rate mortgages. Page 17

A new strategy for BBA

BBA, the UK engineering group, has finished its long line of cash calls to fund new deals. Yesterday it unveiled a new strategy of consolidation based around four core businesses. The company reported first-half profit before tax and exceptional items of £33.1m (£32.9m). Page 17

Ashtead rises by 22%

A strong second-half performance helped Ashtead, the plant and machinery hire group, to lift pre-tax profits to £2.76m for the full-year from £2.27m. Peter Lewis (left), the group's chairman, said the group had increased market share and strengthened the position of each of its businesses by maintaining investment, reshaping its customer base and entering new markets. Page 19

Murdoch faces language barriers

Mr Rupert Murdoch's acquisition of Asian satellite broadcaster Star Television will potentially allow him to distribute his vast programming resources to nearly half the world's population, but with an intimidating spectrum of languages and tastes to satisfy. Page 16

More beers in the fridge

The British are changing their drinking habits. More alcohol is now being drunk at home rather than in pubs or restaurants – more wine with meals, more beer by the television set, and more whisky nightcaps. Philip Rawstorne reports on the fast-growing market for take-home drinks where specialist off-licences are being forced to consolidate by the grocery trade. Page 21

Coffee hits a high

Coffee prices leapt to their highest levels for nearly two and a half years in London yesterday after a light frost hit some growing areas in Brazil and Latin American exporters agreed details of their new cartel. Page 22

Firm week for markets

A sharp rise in the price of bullion lifted the South African market last week. Mexico also gained ground while optimism in Japan that the political impasse there might be settled contributed to a near 2 per cent local currency gain in the FT-Actuaries World index.
Back Page

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Horten	191	+	8.5
[illegible]	575	+	14
Varta	300.5	+	8.5
Viag	436.5	+	12.8
Falls			
Continental AG	226	–	4.5
MAN	304.5	–	8.5

NEW YORK ($)			
Rises			
Caterpillar	78½	+	1⅝
Dell Computer	20⅝	+	¾
Ford Motor	54¼	+	1⅞
Motorola	93⅞	+	2½
Nat Semicondtr	16⅝	+	⅝
Falls			
Boeing	39	–	⅜

New York prices at 12:30.

PARIS (FFr)			
Rises			
BIC	1300	+	55
Bancaire Cie	570	+	35
Chargeurs	1145	+	71
Skis Rossignol	1350	+	106
UFB Locabail	380	+	28.5
Falls			
GTM-Entrepose	488	–	12

TOKYO (Yen)			
Rises			
Brother Ind	567	+	17
[illegible]	530	+	30
Falls			
Ando Constn	661	–	22
[illegible]	680	–	25
Kanebo	427	–	18
Toyo Tst & Bkg	1190	–	80

LONDON (Pence)			
Rises			
Acorn Computer	113	+	8
Aegis	36½	+	5½
Airtours	378	+	12
Ashtead	236	+	19
Burtonwood	141	+	6
Capita	162	+	10
Dagenham Motors	123	+	15
Europa Minerals	40	+	6
Gestetner	123	+	8
Greenwich Cotton	15	+	7½
Higgs & Hill	95	+	5
Jacques Vert	119	+	5
[illegible]	182	+	28
Medeva	108½	+	9
Mersey Docks	378	+	11
NSM	107	+	12
Owners Abroad	67	+	5
Sainsbury (J)	487	+	12
Spring Ram	69	+	15
TDS Circuits	16½	+	3
[illegible]	875	+	20
Falls			
AAF Inds	85	–	7
RMC	793	–	12
Redland	505	–	10

Cash for global mobile phone plan

By Daniel Green in London and Louise Kehoe in San Francisco

MOTOROLA yesterday completed the $800m first round of financing for a project to launch 66 telecommunications satellites to create the world's first global mobile telephone service.

The scheme, called Iridium, becomes the first of several rival proposals to move beyond the drawing board.

If it goes ahead, it will be the largest ever private sector aerospace investment. Iridium Inc has already signed a $3.4bn contract with its minority stakeholder parent, Motorola, to design and build the entire network.

Motorola plans to start a service in 1998 that will allow mobile telephone owners to make calls from anywhere in the world. It will also offer paging, facsimile, data and radio-determination satellite services (RDSS) which locate telephones by latitude and longitude.

The first round of financing for Iridium has attracted cash from companies in the state and private sectors in North and South America, Europe and Asia.

US investors include Raytheon, the aerospace company, and Sprint, the telecommunications service provider.

Stet, the holding company for Italy's domestic and international telecoms businesses, is involved as is the Mawarid Group, a Saudi Arabian industrial concern.

Japanese investors, including Sony, Mitsubishi and Mitsui, have clubbed together to invest as the Nippon Iridium Corporation.

Many of these investors will act as service providers to domestic and regional customers.

Motorola, which has built mobile telephone networks in many countries, has invested about $270m of the $800m. It expects its stake to fall to no less than 15 per cent as new investors join.

The project has also drawn in two new competitors in the satellite launch business: Russia's Khrunichev Enterprise, which builds the Proton rocket; and China's Great Wall Industry Corporation, which makes the Long March series of satellite launchers.

Regulatory hurdles remain as Motorola competes with other proposed satellite telephone systems for approval from the US Federal Communications Commission and authorities in several other countries.

The FCC is expected to select next year two or three satellite phone operators to provide the service.

In securing the financing, Motorola has taken a step beyond its rivals, which include Inmarsat, the mobile telecommunications co-operative owned by 69 national telephone operators, and Loral, the US satellite manufacturer.

Inmarsat said that the Motorola financing "has no impact on our plans".

Departure of Elf chairman imminent

By John Ridding in Paris

MR LOIK Le Floch-Prigent, chairman of Elf-Aquitaine, the oil and gas company and France's largest industrial group, will be replaced this week, according to official sources.

Mr Philippe Jaffré, chairman of Crédit Agricole, one of France's most powerful financial institutions, is expected to be voted on to the Elf board today and confirmed as chairman by the government council of ministers tomorrow.

The move reflects the practice of replacing the heads of important state-owned companies following a shift in political power. Mr Le Floch-Prigent was appointed head of Elf by the socialist President Mitterrand in 1989. He has been regarded as vulnerable since the centre-right government of Mr Edouard Balladur took office in March.

The government is keen to remove a socialist appointee from Elf because the oil group is one of the first four companies to be sold in its privatisation programme.

So far Mr Balladur's government has been restrained in replacing company chiefs. The only other change has been the replacement of Mr René Thomas as head of Banque Nationale de Paris by Mr Michel Pébereau in May.

Mr Le Floch-Prigent is expected to be given another important post. Official sources said he would probably take control of Gaz de France, the state-owned utility.

Mr Jaffré has no previous experience in managing an industrial company. He worked in the French treasury between 1977 and 1987 and was an adviser to Mr René Monori, the then economy minister, in 1979 and 1980.

He was executive chairman at Banque Stern and was appointed chairman of Crédit Agricole in 1988.

A government official said that Mr Jaffré had been selected because of his management expertise and because the Elf privatisation would be a complex financial challenge.

The government has indicated that the size of the group – which has an estimated market value of about FFr100bn ($16.8bn) – might mean that it is privatised in tranches. The government holds 51.4 per cent of the shares.

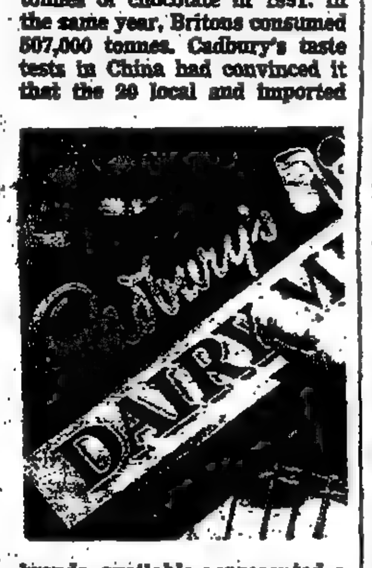
Cadbury to tempt China with chocolate

By Michael Skapinker, Leisure Industries Correspondent

CADBURY Schweppes is to bring chocolate pandas to the children of China as part of a £20m ($29m) project to establish the group as a leading provider of confectionery to the People's Republic.

China's growing free market culture has convinced several western manufacturers that Chinese children will be as susceptible to sweet things as those elsewhere. Coca-Cola, which has 13 bottling plants in China, earlier this year said it was investing a further $150m in the country.

Cadbury says that the 1.2bn Chinese consumed only 11,000 tonnes of chocolate in 1991. In the same year, Britons consumed 507,000 tonnes. Cadbury's taste tests in China had convinced it that the 20 local and imported



brands available represented a mere nibble at the market's potential.

The UK-based group has set up a joint venture partnership with the Beijing General Corporation for Agriculture, Industry and Commerce (Baic) to build a manufacturing plant near the Chinese capital. Cadbury will have a 75 per cent stake and management control over the venture. The plant will begin production in 1995 with an initial annual capacity of about 5,000 tonnes.

Baic, which is linked to the Chinese agriculture ministry, controls Beijing's milk supply and dairy processing facilities. Before local production begins, chocolate will be imported from the UK and Australia, where the group already sells chocolate pandas. Other products on sale will be Cadbury's Dairy Milk, Hazelnut, Roast Almond, Chocolate Eclairs and Cadbury Drinking Chocolate.

All products sold in China will carry the Cadbury name in both English and Mandarin. A phonetic translation of Cadbury into its Mandarin equivalent, Ji Bai Li, means "luck plus hundreds of benefits".

Tracy Corrigan reports on a squeeze in the derivatives business

Jumping through the credit ratings hoop

Of all the risks involved in derivatives trading, the one that troubles market participants most is credit risk. They are worried about taking on exposure to companies that are financially weaker than themselves, and even more worried that other dealers may not want to trade with them.

In the past 10 years, there has been a decline in the financial strength of banks and their credit ratings have dropped accordingly. This decline in credit quality has a greater impact in the $4,000bn over-the-counter market in swaps and options, where contracts typically last between three and 10 years, than in the foreign exchange market, for example, where exposure to a counterparty is brief.

The crunch for banks and securities houses comes when their ratings fall to single-A, as many firms are limited by internal restrictions to dealing with credits rated double-A and above.

Banks with less than top credit ratings are being squeezed out of the market because their clients prefer to deal with better credits. The result is that, although the market is expanding rapidly, business is becoming increasingly concentrated among a handful of banks. Mr David Mullins, vice-chairman of the board of governors of the Federal Reserve, estimates that about 90 per cent of business is conducted by just six US banks.

As many banks now believe that a strong derivatives operation is vital to any international banking business, they have not taken the threat lying down. "The swaps business is so important to our underwriting business that we would never allow ourselves to be squeezed out of the market," said one US banker.

One remedy is for lower-rated companies to set up separately capitalised subsidiaries with top ratings, through which to channel derivatives business.

So far, only two, Merrill Lynch and Salomon Brothers, have taken this route. The setting up of a derivatives unit backed by fully committed capital, with the prerequisite credit rating, restores an institution's access to clients previously unwilling to accept the parent company's credit rating. But if the subsidiary fails to generate fresh business, then the parent will have used up scarce and expensive capital to no avail.

Currently, analysts at Moody's, the US credit rating agency, have 18 proposals for separately capitalised derivatives units on their desks, but it is unlikely that all of these will go ahead. Some firms have met with opposition from their parent companies or the regulators, while others are not yet convinced the plan represents the best use of capital.

Citibank, which in any case faced opposition from the Office of the Comptroller of the Currency, one of its US regulators, has abandoned plans for a swaps unit and is concentrating instead on improving the credit rating of the bank (currently rated A2 by Moody's and A by Standard & Poor's).

Kidder Peabody, which is unrated, is considering seeking a rating in its own right. Kidder's parent, General Electric of the US, has a triple-A rating.

Others – such as Morgan Stanley and Lehman Brothers – are still looking at setting up separately capitalised units. Some Japanese banks, such as Tokai Bank, are considering following suit.

But even those keen to go ahead have some reservations. "This could be nothing more than a high stakes poker game," said one US banker.

The market is finding other solutions. Many weaker financial institutions have started setting aside a portion of the value of the contract as collateral against swap agreements, imitating the practice in the futures market. This substantially reduces credit exposure for counterparties, but many market participants still find it easier to deal with a triple-A rated counterparty than to bother with collateral.

A survey conducted as part of the recent G30 report on derivatives found that two-thirds of dealers were prepared to accept cash or securities as collateral, and more than three-quarters would accept a third-party guarantee.

The most radical solution – which would effectively eradicate the issue of credit – is to set up a clearing house through which all over-the-counter derivatives could be settled. However, there are enormous technical difficulties in designing a system that could deal with such diverse instruments.

Further, the vested interests of individual firms would not necessarily be served. For example, triple-A rated firms, and those firms which have set up separately capitalised subsidiaries, would lose their competitive advantage. As a result, it may prove difficult to gain sufficient backing for such a concept.

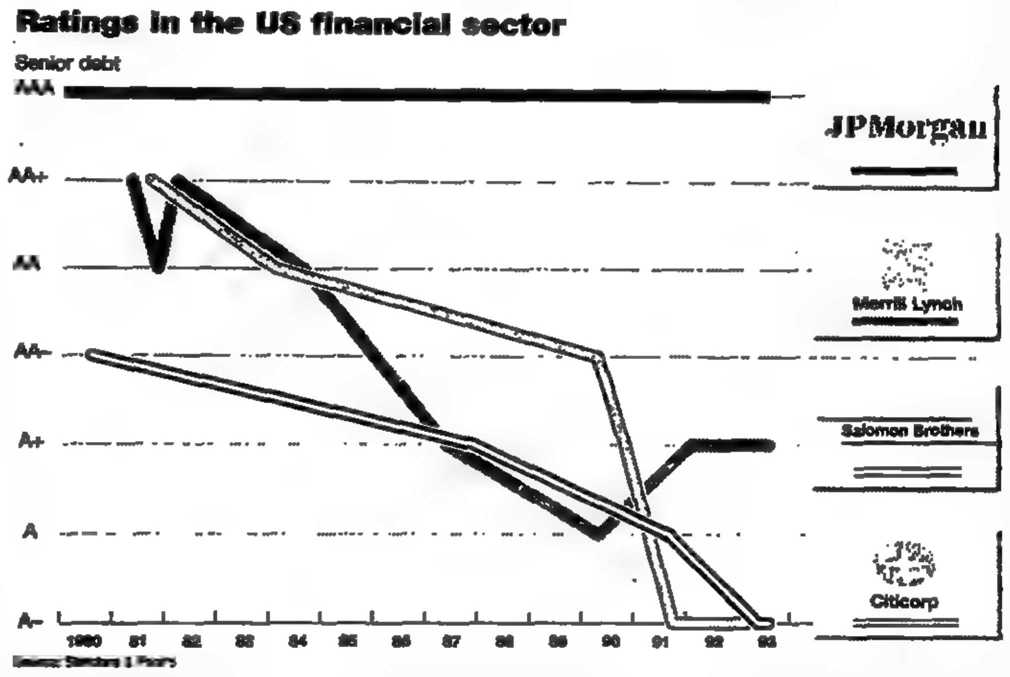
Several organisations are researching the creation of derivatives clearing houses, including the Chicago Board of Trade, which already clears its own futures and options contracts.

It is still not clear which direction the market will ultimately take. Another crop of new subsidiaries would increase the pressure on lower-rated banks to follow suit. "We did it because our clients wanted us to," said Mr Dennis Keagan, co-head of Salomon Brothers in London.

But some market participants may not be able to afford to inject large amounts of capital into their businesses, even if they risk finding themselves excluded from the market.

"It is only worthwhile if your rating is bad enough and your business flow is large enough to justify the commitment of capital," said Mr Nick Burge, head of swaps at Nomura International in London.

Ratings in the US financial sector



CMB warns of profits fall as currency changes hit sales

By Alice Rawsthorn in Paris

CARNAUDMETALBOX, the Anglo-French packaging group, yesterday warned of a fall in net profits for the first half of this year due to adverse exchange rates and difficult market conditions.

CMB, which is the leading player in European packaging, said that sales fell 6 per cent to FFr11.89bn ($2bn) in the first half of this year, down from FFr12.63bn.

Interim profits were likely to fall at a similar rate. This would bring the net figure down to about FFr518m from FFr549m.

The profits warning follows a reshuffle among CMB's shareholders. MB-Caradon, the UK building products group, this spring sold its 25.3 per cent stake in CMB for FFr3.91bn to a consortium of existing investors.

The consortium included CGIP, the French holding company, which increased its initial 25.3 per cent holding in CMB by 7 per cent.

CMB said that trading had been difficult throughout the first half with a deterioration in performance in Spain and Germany during the second quarter.

The only European market to show signs of improvement in the second quarter was the UK.

In recent years the group has been able to depend on growth from its operations in Africa and Asia to compensate for any slackness in Europe.

However, its Asian business was destabilised by changes in production arrangements in Singapore and its African activities by the political problems of Nigeria.

CMB yesterday said that conditions had improved in Asia, Africa and the US, but there was no sign of recovery in Europe.

The group has also been badly affected by changes in exchange rates since the September currency crisis. It estimated that currency movements depressed its sales by 7.5 per cent in the first half, although it did receive a 3.4 per cent boost from acquisitions.

The prospect of a weaker franc following this weekend's crisis reform of the ERM should alleviate the currency problem.

Last year CMB reported a 15 per cent increase in net profits to FFr976m on turnover of FFr24.83bn.

IBM and Dell try new approaches to US marketing

By Louise Kehoe in San Francisco

INTERNATIONAL Business Machines and Dell Computer of the US yesterday introduced products and marketing approaches designed to address the increasingly segmented personal computer market.

In the US, IBM formed Ambra, a personal computers sales subsidiary, to target "price-sensitive PC customers who prefer purchasing through the direct channel".

Ambra will sell its own brand of PCs, built by subcontractors, through mail and telephone orders.

The formation of Ambra US follows similar moves last year by IBM in Europe and Canada. It will offer a broad range of desktop and notebook PCs, aimed at the US market and substantially different from Ambra-branded products in Europe and Canada, the company said. Marketing and service functions will also be subcontracted to other companies.

Through Ambra, IBM is also attempting to broaden the scope of its PC marketing to cover market that its own brand products do not address.

The new company aims to capture a significant portion of the $10bn direct-response market in the US, which at the moment is catered for by Dell, Gateway 2000 and Zeos.

Dell announced a series of desktop PC systems, services and support programs aimed at specific types of PC buyers.

"The old categories that computer companies have used – home versus business, large versus small, low-priced versus high-performance – no longer suffice," said Mr Michael Dell, chairman and chief executive.

● Wang Laboratories, the US computer group, said it could emerge from Chapter 11 bankruptcy protection as early as autumn this year, Reuter reports. The company said it had reached agreement in principal on the private placement of $60m in 12 per cent exchangeable preferred stock and warrants to purchase 3.6m shares of the new common stock that Wang will issue as part of its reorganisation plan.

● Hewlett Packard has cut prices of its DeskJet brand ink-jet PC printers by between 9 per cent and 22 per cent.

Star chief expected to resign

By Raymond Snoddy

MR Julian Mounter, chief executive of Star TV, the Asian satellite venture, is expected to announce his resignation tomorrow.

The move comes a week after Mr Rupert Murdoch's News Corporation bought a majority stake in the company, which broadcasts five channels of television to 38 countries. The cash and shares deal was worth around $525m.

His resignation will come as a surprise after appearing last week to be looking forward to working with the new owners of Star TV. A meeting with Mr Murdoch was expected in Los Angeles this week.

News Corporation said it would be interested in maintaining some relationship with Mr Mounter, whose experience ranges from working for The Times newspaper and Thames Television in the UK.

He was also director-general of the New Zealand Broadcasting Corporation. He then took a year off to sail the world before becoming chief executive of Star last September.

He was involved in the negotiations which pitted Pearson, owners of the Financial Times, against News Corp for a majority stake in Star.

Murdoch bets on channels' star potential

The media investor's latest prize puts 3bn viewers within reach, writes Simon Davies

IT is undoubtedly a glittering prize. Mr Rupert Murdoch can potentially distribute his vast programming resources to half the world's population, and many of its fastest-growing economies, following his acquisition of Asian satellite broadcaster Star Television.

Less clear, however, is whether the myriad of Asian government regulations will allow this giant consumer market to tune in; and whether the 3bn people in the satellite's giant footprint will actually want to watch, in the face of growing competition from other broadcasters.

Mr Murdoch is faced with the governments of countries – China, Singapore, Malaysia and Indonesia – with a tradition of being suspicious of western media, and with an intimidating spectrum of languages and tastes to satisfy.

In fact, as he relaxes on his yacht, basking in the satisfaction of his victory in a four-man bidding war for the company, Mr Murdoch is faced with few certainties from this achievement.

He has unarguably proved a benefactor to Hong Kong investors, who had looked upon Star as a financial liability for owner Hutchison Whampoa. They have been delighted with a pay-back of six times the cost of their investment, representing an extraordinary profit of HK$1.5bn ($194m).

However, News Corporation's shareholders may have to wait a lot longer. It is estimated that Star may have accumulated losses of up to US$200m by the end of 1995.

Wishing upon this Star, however, could make shareholders' dreams come true. News Corp already owns a vast library of programmes to add to Star's existing five channels: Prime Sports, MTV Asia, BBC World Service Television; a Mandarin channel and Star Plus, a family entertainment channel.

It also has the technical expertise to introduce digital compression and encryption to Star, enabling it to spawn 50 or more channels, avoiding piracy and ekeing greater yields from its Twentieth Century Fox and Fox Television libraries.

In the short term, it is Star's existing markets of India and Taiwan which will sustain earnings. Taiwan is busy regulating a network of an estimated 400 illegal cable operators, which are bringing in fees of around T$10bn (US$378m).

In India, Star has been nothing short of a media phenomenon, with presenters from its MTV channel receiving rock star receptions, and at least 3.3m households receiving its programmes.

Mr Kirk Sweeney, research director at Lehman Brothers, argued: "China may put a twinkle in his eye, but I don't think Rupert Murdoch is paying US$525m for China today, or China tomorrow. He is paying for global distribution for his product."

However the hidden value in the Star equation is definitely China. Mr Murdoch has made no secret of his ambition to break into this market of 1.2bn consumers, with their decades of accumulated savings.

Although direct satellite link-up is illegal for individuals, an estimated 500,000 dishes were sold in China last year, and there is no evidence of moves to enforce the law. As technology advances, and dishes get smaller, it is going to become increasingly difficult for governments to block Star's reach.

Mr John Ure, research associate at the Centre for Asian Studies, said: "I think China will try to follow the Singapore model of developing its own cable network, thereby enabling it to control what goes on the screens."

There are already more than 1,000 licensed cable television networks operating in China. Wharf Cable – the cable operating subsidiary of the former Sir Yue-Kong Pao's Wharf group – recently became the first foreign company to gain a licence to operate a Chinese cable network, in the city of Chengdu.

According to Star's latest internal forecasts, it expects to reach 14m Chinese households by the end of this year, and 21m by the end of 1994. This compares with the current figure of 4.8m.

However, the Chinese audience is going to want to watch Chinese programmes, and this is News Corp's one weak link.

News Corp was blocked by Hong Kong regulators from purchasing 22 per cent of TVB, the Hong Kong terrestrial broadcaster which controls an estimated 60 per cent of all Chinese language programmes outside China.

TVB has just announced the formation of a consortium including CNN International, ESPN Asia, Home Box Office Asia and government-owned Australian broadcaster ATVI, which is to lease 16 transponders on the APT satellite, due for launch in June 1994. TVB sees Taiwan and, eventually, China as the vital markets. Further competition is inevitable.

Mr Fung Shong-kwong, general manager of TVB International, said: "I don't need computer models to project how we will do because we have been selling our programming to China on video and to TV stations for 15 years, very profitably."

With a satellite transmission that will cover all of China and Taiwan, TVB can offer the same distribution, but more attractive programming.

Mr Fung said it was unlikely TVB would sign a programming deal with its erstwhile ally. Some analysts, however, believe News Corp could sell 12 per cent of its stake in Star, thereby retaining 51 per cent control and reeling TVB's library through the offer of equity participation.

As an alternative, or possible addition, Star is already negotiating to purchase the entire library of Hong Kong film-maker Golden Harvest, which has around 350 titles.

More than just China is at stake. The overseas Chinese control the business wealth of Hong Kong, Singapore, Taiwan and the bulk of the south-east Asian economies. If Mr Murdoch can attract their hearts, he will definitely have a prize worth winning.

Lion Nathan buys brewing assets of Australian group

By Terry Hall in Wellington

LION NATHAN, the New Zealand-based brewing and soft drinks group, is set to lift its share of the Australian beer market from 40 to 46 per cent after buying the brewery operations of South Australian Brewing Holdings.

If approved, the takeover will consolidate Lion Nathan's position as the biggest brewer in Australia and New Zealand. SA Brewing's main brands are Southwark, West End and Eagle. Lion Nathan yesterday said it was paying A$225m (US$152m) in cash for SA's brewing division, including the modern Southwark Brewing and Kent Town Malting, plus 105 hotels in the state of South Australia.

In addition, it has agreed a long-term contract for SA Brewing to continue to supply aluminium cans for SA brewing products, and later this year for Pepsi-Cola bottlers in New Zealand.

On expiry of the existing contract, SA Brewing will have the right to supply Lion Nathan's other aluminium can requirements in Australia and New Zealand, provided it can match competitive pricing.

Lion Nathan recently raised funds to retire debt and to help finance the purchase of the brewing interests.

It said the purchase would underpin its hopes to increase its share of the South Australian market and the overall Australian beer industry.

Lion Nathan said it had not yet decided whether to retain the hotels, noting that it did not own many in Australia and was selling them in New Zealand.

The purchase of the assets would increase Lion Nathan's assets in Australia to over 75 per cent of its total assets.

Asahi Breweries rises to Y8.5bn

By Emiko Terazono in Tokyo

ASAHI Breweries, a leading Japanese brewer, reported a rise in non-consolidated pre-tax profits at the halfway stage, despite a fall in sales.

The company posted a 7.4 per cent increase, to Y8.5bn ($81m), in pre-tax profits for the first six months to June, due to its rationalisation efforts.

Sales fell 2.3 per cent to Y349bn. After-tax profits, however, plunged 23.3 per cent to Y2.4bn due to a rise in corporate taxes.

In spite of the sharp fall in after-tax profits, Asahi said it would pay an unchanged half-year dividend of Y4 a share.

Asahi attributed the fall in sales to the separation of its foods division in July last year. In addition, bad weather and a decline in consumer spending depressed beer sales, which fell 0.7 per cent to Y292.2bn.

The bad weather also affected sales of non-alcoholic beverages, which declined 3.8 per cent to Y46.3bn.

Revenue from its real estate division dropped 19.6 per cent to Y7.4bn due to the continuing slump in the property market.

Wine sales fell 1.6 per cent to Y1.2bn and drug sales 71 per cent to Y991m.

For the full year to December, Asahi expects a 3.6 per cent rise in non-consolidated pre-tax profits to Y14.5bn on a 1.9 per cent increase in sales to Y785bn.

Amsterdam SE to delist shares in Daf

By Ronald van de Krol in Amsterdam

SHARES in Daf, the Dutch truckmaker which collapsed under the weight of its debts in early 1993, are to be delisted from the Amsterdam stock exchange on September 1, with official trading to end on August 31, the bourse said yesterday.

The move follows repeated assertions from the receivers that shareholders could not expect to receive anything for their shares, which are now quoted at just Fl 0.45, compared with their flotation price of Fl 47 per share in mid-1989.

Daf was resurrected in slimmed-down form as Daf Trucks in March.

The company is held privately by shareholders who include the Dutch state, the Flemish regional government of Belgium, and a number of institutional shareholders.

The decision to halt trading means that the expiration date of October call and put options on Amsterdam's European options exchange will also be brought forward to August 31.

However, Daf's 1988 6¾ per cent bonds will continue to be traded on the bourse on an over-the-counter basis.

A group of bondholders has said it will undertake legal action to press for damages against the issue's lead-manager, ABN Amro Bank, and the trustee. The bonds, with a nominal value of Fl 1,000, have recently been quoted at around Fl 25.

US oil concern sells unit stake

OCCIDENTAL Petroleum, the US oil group, is to sell 20 per cent of Occidental Exploration of Argentina to Astra Compania Argentina de Petroleo for about $24m, Reuter reports from Los Angeles.

Occidental said Astra had also agreed to buy for $10m an option, exercisable in July 1994, to acquire the remaining 80 per cent.

Occidental Exploration on Argentina owns Occidental's Argentine oil and gas operating interests. At the end of 1992, it had 35m barrels of proven reserves.

Airport contract awarded

By Ariane Genillard in Bonn

ASEA Brown Boveri, the Swedish-Swiss energy and engineering group, and Deutsche Babcock, the German engineering company, have won a DM730m ($429.4m) contract from the Greek government to supply equipment for the new Spata airport on the outskirts of Athens.

ABB's German-based Schaltanlage and Leitungsbau subsidiaries, which manufacture switch gears and energy wires, will provide electrical equipment worth DM410m for the airport's terminals and for the runway lighting systems.

Krantz TKT, a subsidiary of Balcke-Dürr, owned by Deutsche Babcock, is expected to provide most of the remaining electrical equipment.

Infrastructure at the Spata airport will be built by Hochtief.

The whole project is estimated to be worth around DM4bn. The Greek government wants to create a Sparta airport company to handle the development and the operations of the airport.

The airport, due for completion in 1998, will have a capacity of 16m passengers a year.

Westpac's Ord Minnett broking arm to be sold

WESTPAC Banking of Australia is to sell its Ord Minnett broking arm to Jardine Fleming Australia and Ord Minnett management, Reuter reports from Sydney.

No price was disclosed, but Westpac said Ord Minnett management and Jardine Fleming would each take a 50 per cent stake in Ord Minnett, and the deal would be closed by September 30.

Hong Kong-based Jardine Fleming is owned by Jardine Matheson Holdings and UK-based Robert Fleming, with 50 per cent each.

The buyers claim the company will benefit from the combination of Ord Minnett's strong domestic presence and Jardine Fleming's cross-border expertise and international network.

Mr Robert Joss, Westpac managing director, said the sale was in line with Westpac's strategy of disposing of non-core assets.

Mr Neville Miles, joint managing director of Ord Minnett Securities, said the group would focus on its underwriting business and derivative markets in Asia in the new joint venture. He said Ord Minnett had not yet finalised an arrangement to offer management and staff a stake in the broking firm.

Sales halted at telecoms joint venture

MOTOROLA of the US and Canada's Northern Telecom have halted sales of cellular telecommunications equipment from a joint venture formed by the companies last year, writes Louise Kehoe.

The venture had been expected to generate revenues of between $500m and $1bn, but industry executives said it had been dogged by disagreements over cellular telephone technology standards.

Although the venture has not been terminated, its sales activities have been curtailed and most employees will be re-employed by the parent companies.

UOB improves

UNITED Overseas Bank (UOB) of Singapore lifted group pre-tax profits for the six months to June 30 to S$307m (US$191m), a 30 per cent rise on a year ago, writes Kieran Cook in Kuala Lumpur.

The bank also announced a one-for-eight bonus share issue.

Fondiaria shareholders approve L1,058bn issue

By Haig Simonian in Milan

FONDIARIA, Italy's third-biggest private-sector insurance group, which suffered a L578bn loss last year, yesterday won shareholder approval for a L1,058bn ($658.4m) rights issue.

However, Gaic, the listed holding company which controls Fondiaria, surprised shareholders by announcing it would partly subscribe to the issue.

As a result, the stake held by Gaic, which is jointly controlled by the heavily-indebted Ferruzzi group and the heirs of Mr Camillo De Benedetti, will fall to about 34 per cent from 51 per cent.

Minority shareholders in both Fondiaria and Gaic have complained that the rights issue, announced soon after the scale of Ferruzzi's financial problems became apparent, would have meant that control of Fondiaria would have passed to Ferruzzi's five main creditor banks.

Under the terms of the offer, the banks, led by Mediobanca, are fully underwriting the rights issue.

In an attempt to diffuse minority shareholders' wrath and potential conflicts with Milan magistrates monitoring the Ferruzzi rescue, Gaic has decided to sell the rights to about half the new shares to which it is entitled, using the proceeds to finance the purchase of the remainder. The underwriting banks have indicated to Gaic that the rights will be worth a maximum L16,000 a share

Fondiaria's proposed rights issue, approved by shareholders in Florence yesterday, involves issuing two new shares at L6,500 each for every share currently held. Fondiaria shares were trading at almost L27,000 before the issue was announced.

The decision could mean Gaic will remain the biggest single shareholder in Fondiaria: had it not subscribed to any new shares, its stake in Fondiaria would have dropped to about 17 per cent. However, the precise ranking of shareholders will depend partly on how many minority shareholders take up their rights. At present, Mediobanca has about 15 per cent of Fondiaria, while Generali, Italy's biggest insurer, with which it is closely associated, has about 7 per cent.

Fondiaria will use the proceeds to recapitalise its La Fondiaria, Milano and La Previdente subsidiaries. Some of the money will also go to cutting group debts of L2,368bn at the end of June.

Fondiaria's financial difficulties stem from its heavy spending to buy into Aachener und Münchener Beteiligungs, Germany's second-biggest insurer, as well as ambitious European expansion plans with AMB and Royal Insurance of the UK. Fondiaria also embarked on an expensive and unsuccessful diversifications in its domestic market, financing largely through debt.

BBA's half-year pre-tax profits mark time at £33.1m

By Roland Rudd in London

BBA, the engineering group, attempted to draw a line under the last eight years of big deals and rights issues as it reported profits before tax and exceptional items of £33.1m ($49.3m) in the first half of the year against £32.9m a year earlier.

Mr Vanni Treves, chairman, said: "We are entering a new stage of consolidation. We do not want to issue more equity for the foreseeable future."

In place of the succession of cash calls to fund new deals, Mr. Treves said the group would be focusing on four core businesses. The remaining parts, with turnover of around £200m, would be sold.

The new strategy coincided with the departure of Mr John White, managing director, due to illness.

Mr Treves rebutted speculation from some analysts and shareholders that the board had been unhappy with Mr White's performance over the last few years. "If Mr White had not caught a virus he would still be chief executive," he said.

It is understood that BBA's directors, led by its two non-executives, Mr Lionel Stammers and Mr Robert Cooper, had been working on an "orderly succession", in the longer term, to Mr White before he became ill.

This was speeded up when Mr White became poorly and the group is now looking at four possible candidates to take over as managing director, although Mr Treves said: "There is no sense of urgency."

Redundancy and reorganisation costs of £7.8m were much bigger than expected. The figure is expected to rise to £14.6m by the end of the year.

Borrowings fell from £187m to £163m, representing gearing of 35 per cent. The group's disposal programme, which could raise around £130m, will significantly reduce debt by the year-end.

However, the group warned that the timing of the disposals was in "the lap of the gods".

Under the new FRS3 accounting standard, pre-tax profit rose from a restated £28.6m to £50.3m, which includes exceptional items of £17.2m principally from the disposal of the group's interest in Pacific BBA, the Australian industrial and automotive manufacturer.

Operating profit rose to £45.3m from £40.9m on increased sales of £742m against £649.1m.

Earnings per share declined to 4.2p from 4.8p. The interim dividend is maintained at 2.25p.

Details, Page 19

Abbey National rises 11% pre-tax

By John Gapper, Banking Editor

ABBEY National, the home loans and banking group, yesterday reported an 11 per cent rise in interim pre-tax profits to £301m ($448.5m) from £270m. It was helped by rapid growth in wholesale-funded fixed-rate mortgages.

Abbey achieved a 31 per cent rise in UK retail profits, to £300m from £229m, helped by a lower bad debt charge of £118m against £146m. This reflected a fall in house repossessions and in the number of mortgages in arrears.

In France, the bad debt charge rose to £94m, from £16m last time, because of the weak commercial property market. France accounted for the bulk of an £86m loss in continental Europe and offshore, against a £9m loss in the first half of 1992.

The European problems drove up the overall bad debt charge, which includes loan provisions and suspended interest, by 35 per cent to £222m.

Abbey raised its share of new mortgage lending to 23.3 per cent of the UK mortgage market, against 12.4 per cent, by promotion of fixed-rate mortgages. Net lending was £2bn, compared with £1.2bn, largely funded by wholesale funds rather than retail savings.

The group's share of UK retail savings fell fro 4.1 to 3.3 per cent as retail inflows dropped to £400m from £700m, and the percentage of the domestic mortgage book funded by retail savings fell to 80 per cent from 86 per cent.

Operating profits before bad debts rose 20 per cent to £523m. Sir Christopher Tugendhat, chairman, said the result was "encouraging, given that the UK housing market is only just beginning to emerge from a prolonged recession".

Sir Christopher said Abbey believed trading results in France might be improved by interest rate cuts.

Lex, Page 14

A summer under wraps at BNP

Pébereau plots a course for privatisation, writes Alice Rawsthorn

AUGUST is traditionally a time for French executives to rest, but for Mr Michel Pébereau, the new chairman of Banque Nationale de Paris, it will be a demanding month when he must map out a new strategy for the bank in preparation for its privatisation next autumn.

Mr Pébereau, who was brought into BNP two months ago by France's new centre-right government to replace the veteran Mr René Thomas, will in early September present his plans for the future of the traditional bastion of French banking – first to its staff and then the investment community.

The scale of Mr Pébereau's challenge at BNP should not be underestimated. He has taken over at an extraordinarily sensitive time when BNP is not only poised for sale to the private sector, but is also badly bruised by the recession that has for the past year haunted France's banks.

The new chairman does have the advantage of being an old hand at the privatisation game. He arrived at BNP after a decade at Crédit Commercial de France, a smaller banking group which was privatised by the last centre-right government in 1987.

Mr Pébereau impressed analysts and investors at CCF by creating a clearly defined niche for his group in the sprawling French banking scene. He focused on four areas of activity – retail banking, investment banking, asset management and private banking – and positioned it as *the* bank for wealthy private clients. He invested in an ambitious arts sponsorship programme and even commissioned Mr Sébastio Salgado, the celebrated Brazilian photographer, to work on last year's annual report.

His task at BNP will be very different. Mr Pébereau has moved from a middle-sized bank which made net income of FFr7.9bn in 1992 to one of the biggest banks in Europe with net income of FFr39.92bn ($6.77bn).

Moreover, BNP reported a reduction in net profits from FFr2.94bn in 1991 to FFr2.17bn in 1992 and recently warned of a further fall in the first half of 1993.

BNP, in common with the other big French banks, has been affected by the sluggish state of the credit market and the steep increase in business failures, particularly among smaller companies. Ms Susan Sternglass, banking analyst at Goldman Sachs, is braced for a further fall in net profits this year to FFr1.1bn.

At first glance, this does not look like an attractive privatisation prospect. However, Mr Pébereau does have consolation that BNP is not heavily exposed to large corporate loans, unlike Crédit Lyonnais, the other big state bank. As a result, Ms Sternglass and other analysts are confident that, once the French economy recovers, BNP's problems should ease.

Michel Pébereau: to present plans in early September

"This is a straightforward recovery story," said Ms Sheila Garrard, banking analyst at Shearson Lehman. "We should see an improvement next year with the real recovery coming through in 1995. In the meantime, Mr Pébereau will have a chance to show us what he can do."

One area where Mr Pébereau should be able to make an impact is in costs. BNP's costs represented 70.4 per cent of income last year, which is typical of the big French banks but higher than the German average of 65 per cent or the British of 55 per cent.

French banks have traditionally shied away from rationalisation because stiff labour laws have made it so costly and complex to shed staff. Rationalisation is now slightly easier due to recent changes in legislation and BNP, like the other banks, has already announced a cost-cutting plan. Analysts suspect Mr Pébereau might accelerate that programme, possibly as part of a longer term effort to streamline BNP's organisational structure.

On the strategic front, he has to consider what to do with the portfolio of industrial investments that BNP has built up in other state-controlled companies. Judging by his record at CCF, he is unlikely to follow Mr Jean-Yves Haberer, his counterpart at Crédit Lyonnais, by beefing up BNP's industrial banking role. But most of the existing investments are long-term stakes which he may decide to keep.

The other big issue is the future of BNP's relationship with Dresdner Bank of Germany. The two banks already collaborate in eastern Europe and have agreed terms for a share-swap of up to 10 per cent. Mr Pébereau must decide whether to extend the collaboration into other countries and how to structure BNP's operations outside France.

"Mr Pébereau was a great success at CCF and we have high hopes of him at BNP," said one analyst. "But BNP is much more complex than CCF and he has a bigger job to do. We'll really see what he is made of now."

Gucci chairman admits to pledging shares

By Peggy Hollinger in London and Haig Simonian in Milan

MR Maurizio Gucci, chairman of the fashion house which carries his name, has admitted to pledging 10 per cent of his shares in the Gucci business to secure personal debts.

The latest twist in the battle for control of the company, made in a court filing in New York, came days after Mr Gucci publicly denied having pledged shares.

Investcorp, the Bahrain-based bank which holds 50 per cent of Gucci, is seeking to force Mr Gucci's dismissal and win control of his 50 per cent through the New York courts. The bank alleges Mr Gucci has violated a shareholder agreement by pledging his shares. Mr Gucci denies this interpretation of the agreement.

In a New York court yesterday, a judge ruled that Mr Gucci's shares, which have been subject to a restraining order since July 22, should be frozen for a further week. The court is expected to decide on Friday whether the stake should restrained pending the outcome of arbitration launched by Investcorp last month.

Mr Gucci has consistently denied pledging any of his shares to third parties.

A Gucci spokesman suggested the apparent contradiction might be due to a technicality. He suggested that Mr Gucci had denied pledging "Gucci" shares, rather than commenting on shares in Seaton Hills, the offshore holding company which owns Mr Gucci's stake.

Last night, Gucci officials were also trying to ascertain from lawyers whether pledging 10 per cent would be enough to infringe the pact with Investcorp.

Yesterday's admission follows an earlier setback for Mr Gucci. On Saturday, a Milan judge rejected his attempt to sequester Investcorp assets in Italy. The decision was based on the fact that the court could not consider an action by Mr Gucci regarding Guccio Gucci, the group's Italian parent company, as he is not a direct shareholder.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0000	[illegible]	18.11	18.11
0100	18.03	18.09	18.09
0130	32.00	18.09	18.09
0200	32.00	18.09	18.09
0230	[illegible]	18.09	18.09
0300	32.00	18.09	18.09
0330	32.00	18.09	18.09
0400	32.00	18.09	18.09
0430	32.00	18.09	18.09
0500	32.00	18.09	[illegible]
0530	17.97	18.11	18.11
0600	33.00	18.11	18.11
0630	33.00	19.07	19.07
0700	33.00	25.36	30.84
0730	33.00	25.35	28.70
0800	24.07	25.35	28.49
0830	24.34	28.34	31.47
0900	28.55	[illegible]	31.67
0930	27.05	31.12	34.46
1000	27.05	31.16	34.60
1030	27.03	[illegible]	34.49
1100	27.03	[illegible]	31.76
1130	27.03	34.44	37.90
1200	32.00	34.66	38.03
1230	32.00	34.49	37.94
1300	32.00	34.36	37.76
1330	30.07	28.38	31.54
1400	30.07	28.51	[illegible]
1430	25.91	28.95	30.02
1500	25.91	28.91	30.00
1530	25.91	26.47	29.65
1600	25.91	28.96	30.05
1630	33.65	39.25	[illegible]
1700	33.65	39.27	42.70
1730	[illegible]	39.21	42.66
1800	33.65	34.43	[illegible]
1830	24.50	28.77	29.81
1900	24.12	25.48	28.54
1930	24.60	25.35	28.42
2000	[illegible]	25.35	28.44
2030	22.16	24.94	26.09
2100	[illegible]	24.00	27.05
2130	37.52	24.00	[illegible]
2200	37.52	34.00	[illegible]
2230	37.52	[illegible]	45.44
2300	22.30	42.00	45.61
2330	21.61	20.50	20.50
2400	[illegible]	19.00	19.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. [illegible] Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. [illegible] Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone [illegible] between [illegible] and 5.15pm Monday to Friday.
©Energy Settlements and Information Services Limited

INTERNATIONAL CAPITAL MARKETS

Rome prepares global bond that could raise up to $5bn

By Haig Simonian in Milan and Tracy Corrigan in London

THE Republic of Italy is preparing to issue the world's largest global bond in a deal which could raise up to $5bn and virtually complete this year's foreign borrowing programme.

INTERNATIONAL BONDS

The largest global dollar bonds issued so far are $3bn issues for the UK and Ontario, according to IFR Securities Data, while the UK and Italy have both issued global offerings of DM5bn.

Italy has filed a registration with the US Securities and Exchange Commission to issue up to $10bn in bonds on the US market over the next decade. The registration is expected to be used up over a number of issues over a period of several years.

Precise timing for the transaction has not been revealed. However, the Italian treasury will be embarking on a two-week roadshow to international investors in early September. "The bond could come straight after," said Mr Alberto Giovannini, an adviser to the treasury.

The size of the issue will depend partly on the outlook for issuing in other currencies before year end, said Mr Giovannini.

In January, the Italian authorities said they wanted to raise $10bn to $15bn on international markets this year. So far, they have borrowed about $7.2bn through fixed rate deals in D-Marks, dollars and yen as well as a floating rate dollar bond.

However, Italy's foreign currency debt represents only 3 per cent of the total outstanding debt, since the large Italian domestic market dwarfs Italy's foreign bond borrowings. "The government will not push the market for an extra $1bn, because it's just a drop in the ocean for Italy," a dealer said.

The global bond, which has been expected in international markets, will be led by Goldman Sachs and Salomon Brothers.

Choosing a global deal, rather than a more traditional Eurobond offering, will allow the treasury to access the US debt market immediately, said Mr Giovannini.

Italy has not previously tapped the US market.

"This is probably the most important issue in the global bond market. Before it was just speculation. Now it's a fact," he said

Elsewhere, activity in the Eurobond market was subdued yesterday, as investors took stock of the effective collapse of the exchange rate mechanism over the weekend. Even without the recent turmoil in the currency markets, new issue volume would be subdued, as August is the low point for activity in the Eurobond market.

In the D-mark sector, the National Bank of Hungary, which borrows on behalf of the Hungarian government, launched a DM1bn issue of 10-year bonds via Deutsche Bank.

The deal was initially sold at a spread of 230 basis points over the 10-year Treuhand bond yield.

The Treuhand issue is considered the 10-year benchmark, prior to the launch of the new 10-year bund today.

Other potential deals are a D-mark offering by the European Investment Bank and a $500m 10-year Eurobond by the Inter American Development Bank.

● The People's Republic of China is planning its first Eurobond issue since the Tiananmen Square massacre in 1989. Nomura has been awarded the mandate to arrange the Euroyen bond issue, following a series of roadshows to promote the offering in Europe and Asia Pacific in September.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
IMI Bank Intl. (Cayman)‡	150	(a)	99.66R	Sep.1997	0.2R	-	K.Peabody/ Lehman Bros.
D-MARKS							
National Bank of Hungary	1bn	8.75	101.5	Sep.2003	2.5	-	Deutsche Bank
FRENCH FRANCS							
Credit Local de France	500	5.75	99.41R	Aug.1998	0.25R	+18 (9½%-98)	Banque Paribas
SWISS FRANCS							
Nankai Construction Co.(b)★ϕ	45	1	100	Aug.1997	-	-	Daiwa Secs.Bk.(Switz.)

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ★Private placement. ϕWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Coupon pays 6-month Libor + 0.375% b) Fixing: 5/8/93.

Italy, UK paper best European markets in July

By Sara Webb

ITALY and the UK, two former members of the European exchange rate mechanism, were the top performing European government bond markets in July, according to figures compiled by JP Morgan Securities.

Italian bonds showed a return of 2.77 per cent in local currency terms, followed by the gilt market with a return of 2.5 per cent – well above the average European bond return of 1.33 per cent.

"The Italian bond market's strong showing was reinforced after the Bank of Italy cut its discount rate by a full percentage point," according to JP Morgan Securities.

"The Ciampi government has remained firm in its resolve to hold down inflation in spite of lira depreciation. Additionally, agreements to overhaul labour market institutions gave investors greater confidence that lower rates of inflation would prevail," the US house said.

The gilt market's rally was prompted by continued favourable economic data showing that inflation was at its lowest level in 30 years.

In addition, sterling assets provided a safe haven for many investors as the European exchange rate mechanism came under attack last month.

Several of the European currencies – in particular the French franc, Belgian franc, peseta and Danish krone – suffered renewed bouts of turbulence at the end of July, triggered by the Bundesbank's decision to leave its keenly-watched discount rate unchanged while cutting the Lombard (or effective ceiling) rate by 50 basis points.

French government bonds gained only 0.75 per cent on the month, while the Belgian, Ecu and Danish bond markets were the worst performers with falls of 0.29 per cent, 0.44 per cent and 0.99 per cent respectively.

"The international government bond markets have provided investors with positive returns during the month of July [with the exception of Belgium and Denmark]. The main factors bolstering global bond markets were yet more signs of moderating inflation," says JP Morgan Securities.

The Australian government bond market ranked as the third best performing market with a monthly return of 2.37 per cent helped by low second-quarter inflation figures.

Ministers' decision to widen ERM bands provides lift

By Sara Webb

EUROPE'S government bond markets roared ahead yesterday as the decision by European Community finance ministers at the weekend to widen the currency fluctuation bands of the European exchange rate mechanism was seen as paving the way for interest rate cuts across the continent.

Market participants are hoping to see interest rates slashed as governments attempt to inject new life into the recession-hit economies of Europe, although yesterday saw no sudden moves to ease.

GOVERNMENT BONDS

"I expect the central banks will wait for some of the foreign exchange dust to settle before cutting rates," said Mr Kit Juckes, economist at S.G. Warburg Securities.

Among the higher-yielding bond markets, Italy showed very strong gains, with the Liffe futures contract jumping nearly two points during the day – from Friday's close of 106.12 to a high of 107.90 yesterday – on expectations of an easing. The market took heart from remarks by Mr Antonio Fazio, the central bank governor, that the EC currency accord had removed an obstacle to lower rates.

Spanish government bonds shot higher and gained over a point on the day. Dealers said the market would be paying close attention to today's repo tender to see whether the Bank of Spain cuts its 11 per cent key money rate.

■ FRENCH government bond prices ended the day sharply higher even though the Banque de France left its key interest rates alone, giving market participants the clear impression that the central bank will not rush to cut interest rates.

"It's more likely that the central bank will wait for the markets to calm down and stabilise before it cuts interest rates," said one dealer.

The French franc held up fairly well in the foreign exchange markets and as bond prices rallied the yield on the 10-year OAT fell below the equivalent yield on German government debt.

■ GERMAN government bonds gained a quarter-point yesterday, underperforming other European bond markets but still benefiting from the market's safe-haven status.

Mr Schlesinger's remarks yesterday that the Bundesbank would allow call money rates to fall below the discount rate were seen as indicating that the repo rate will shift lower.

Dealers reported good buying of medium-dated and 10-year bunds as the Bundesbank's refusal to cave in and cut interest rates – even at a time of crisis in the European exchange rate mechanism – served to lift confidence in the central bank's long-term commitment to defeating inflation. Details of a new 10-year bund issue are expected today.

■ UK government bonds ended little changed as investors switched their attention to continental Europe. The index-linked sector made the strongest gains on hopes of a fall in real yields across Europe.

■ US Treasury prices were mixed across the maturity range yesterday morning as the bond market kept a close eye on passage of President Bill Clinton's budget package.

By midday, the benchmark 30-year government bond was up $\frac{1}{32}$ at 107$\frac{4}{32}$, yielding 6.559 per cent. At the short end of the market, the two-year note was down ⅛ at 100$\frac{1}{32}$, to yield 4.164 per cent.

The morning's economic news – a slight increase in the National Association of Purchasing Management's July index of economic activity – was in line with expectations, and had little impact on market sentiment.

Attention was otherwise firmly fixed on Congress, where Mr Clinton was making last-minute efforts to ensure his budget was passed by lawmakers this week.

Treasury investors are keen to see the budget passed. This is primarily because they view it as the first serious attempt by a US government to tackle the large federal budget deficit.

Any sign that Mr Clinton's budget might fall at the final hurdle, therefore, would probably rock bond prices.

■ JAPANESE government bonds surged ahead as the strength of the yen against the dollar and other currencies continued to fuel hopes of a cut in the official discount rate.

The yen touched a new high on Friday of 104.25 to the dollar, and traded at around 104.75 to the dollar yesterday. The September futures contract, which opened at 110.98, reached a high of 111.42 before ending Tokyo trading at 111.30. In the cash market, the yield on the No 145 issue ended the day at 4.155 per cent, having traded in a range of 4.135 and 4.175 per cent.

FT FIXED INTEREST INDICES

	Aug 2	July 30	July 29	July 28	July 27	Year ago	High *	Low *
Govt Secs (UK)	99.29	99.17	98.57	98.47	97.94	88.35	99.29	93.28
Fixed Interest	119.19	118.73	118.13	117.61	117.34	105.00	119.19	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 119.19 (2/8/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	July 30	July 29	July 28	July 27	July 26
Gilt Edged Bargains	137.7	119.1	148.7	122.4	103.8
5-Day average	125.9	118.2	112.4	104.1	98.6

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	119.0201	+0.303	6.85	7.13	7.30
BELGIUM		9.000	03/03	113.2000	+0.550	7.06	7.15	7.05
CANADA *		7.500	12/03	102.7050	-0.105	7.12	7.34	7.28
DENMARK		8.000	05/03	108.9250	+2.250	6.72	7.16	6.88
FRANCE	BTAN	8.000	05/98	109.3475	+1.400	5.69	6.25	6.25
	OAT	8.500	04/03	114.2700	+1.390	6.47	6.79	6.84
GERMANY		6.750	04/03	101.6500	+0.255	6.51	6.50	6.71
ITALY		11.500	03/03	105.9000	+0.840	10.78†	11.06	11.13
JAPAN	No 119	4.800	06/99	104.7590	+0.450	3.61	3.85	4.14
	No 145	5.500	03/02	108.4769	-0.002	4.16	4.30	4.30
NETHERLANDS		7.000	02/03	104.7800	+0.440	6.31	6.33	6.54
SPAIN		10.300	06/02	102.5569	+0.581	9.84	10.29	10.17
UK GILTS		7.250	03/98	102-27	+1/32	6.52	6.74	6.75
		8.000	06/03	104-21	-2/32	7.32	7.48	7.58
		9.000	10/08	111-02	+1/32	7.75	7.86	7.99
US TREASURY *		6.250	02/03	102-30	-8/32	5.84	5.98	5.74
		7.125	02/23	107-05	+4/32	6.57	6.70	6.86
ECU (French Govt)		8.000	04/03	104.7500	+0.150	7.30	7.27	7.18

London closing, *New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Indian investment fund attracts $100m

By Sara Webb

THE Indian Opportunities Fund, an offshore open-ended fund, has raised $100m from international investors who want to invest in the Indian stock market through a managed investment vehicle.

The fund will be managed by Martin Currie, the Edinburgh-based fund management group, and Indbank, the Indian merchant bank.

It was set up offshore in order to provide international investors with access to the Indian stock market without the need to pay capital gains tax or withholding tax.

International investor interest in the Indian market has been stimulated by the government's economic reform programme.

● The Bulgarian government has backed a proposal to swap state enterprise debts for government bonds and aims to give its final approval on August 18, officials said, Reuter reports from Sofia.

The proposed bonds will have a 20-year maturity, five-year grace period and 10 per cent interest on the lev credit and six-month London interbank offered rate on the currency bonds, both payable twice a year.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:55 pm on August 2

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ASN 9½ 94	200	104¼	105¼		4.16
AlbertaProvince 9⅜ 95	600	109⅝	110	-⅛	4.72
Austria 8½ 00	400	113⅞	114¼	-⅛	5.85
[illegible]					

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
Arbed 7½ 95 LFr	600	100	101		7.49
Genfinance Lux 9⅛ 99 LFr	1000	108⅞	110½		7.26
World Bank 8 96 LFr	1000	102¼	103¼		7.04
[illegible]					

Further sections: DEUTSCHE MARK STRAIGHTS; SWISS FRANC STRAIGHTS; YEN STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS [illegible]

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡ three-month; §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	44	25	11
Other Fixed Interest	0	11	4
Commercial, Industrial	466	126	822
Financial & Property	404	43	360
Oil & Gas	24	23	35
Plantations	4	0	4
Mines	56	26	62
Others	41	37	58
Totals	1,041	291	1,346

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+or -	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
†160	F.P.	-	176½	160	British Telecom (P/Paid)	174½	+3½	N16.8	1.4	11.2	8.2
[illegible]											

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+or -
[illegible]							
60	Nil	6/8	3pm	½pm	Alexon	½pm	
6	Nil	25/8	¼pm	¼pm	Alliance Res.	¼pm	
135	Nil	3/9	19pm	14pm	Birkby	18pm	+4
10	Nil	20/8	4¼pm	2½pm	Britton	4¼pm	
500	Nil	6/9	100pm	80pm	Coats Viyella	98pm	
152	Nil	23/8	18pm	5pm	Cranswick	17pm	
127	Nil	[illegible]	20pm	20pm	Headlam	20pm	
[illegible]	Nil	8/9	[illegible]	1¾pm	Marling	2¼pm	
5	Nil	9/8	1½pm	½pm	Premier Land	¾pm	
120	Nil	16/8	35pm	28pm	Rubicon	33pm	
275	Nil	17/9	26pm	20pm	Skillaw	20pm	
210	Nil	1/9	53pm	41pm	Smith New Court	47pm	+2

pm Price at a premium. † Price offered to public.
For other notes please refer to the Guide to the London Share Service.

TRADITIONAL OPTIONS

● First Dealings July 26
● Last Dealings Aug. 6
● Last Declarations Oct. 28
● For settlement Nov. 8

3-month call rate indications are shown in Saturday editions.

Calls: Anglo Pacific, Cook (D.C), Costain, Doornfontein, Enterprise Comp., Essex Furniture, Ex-Lands, Ferranti, Lon. Finance, Next, Premier Land, Readicut, Spring Ram, Stand. Chartered and Tullow Oil. Puts: Essex Furniture and Tullow Oil. Put & Call: FNFC and Medeva.

FT-SE ACTUARIES INDICES

The FT-SE 100, FT-SE Mid 250 and FT-SE Actuaries 350 indices and the FT-SE Actuaries Industry Baskets are calculated by The International Stock Exchange of the United Kingdom and Republic of Ireland Limited. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1993. All rights reserved.

The FT-Actuaries All-Share Index is calculated by The Financial Times Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries. © The Financial Times Limited 1993. All rights reserved.

The FT-SE 100, FT-SE Mid 250 and FT-SE Actuaries 350 indices, the FT-SE Actuaries Industry Baskets and the FT-Actuaries All-Share Index are members of the FT-SE Actuaries Share Indices series which are calculated in accordance with a standard set of ground rules established by The Financial Times Limited and London Stock Exchange in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

"FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited.

LIFFE EQUITY OPTIONS

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr
Allied-Lyons	550	46	67	65½	11½	21	25½
(*575)	600	22	30½	41	36	46½	50½
[illegible]							

Option		Calls Aug	Calls Nov	Calls Feb	Puts Aug	Puts Nov	Puts Feb
Brit Aero	390	32	59	71½	2½	23½	34
(*416)	420	10	40	55	13½	38½	49
[illegible]							
Zeneca	600	50½	61½	68½	14½	22½	34
(*636)	650	19½	34½	39½	38½	49½	62

Option		Calls Oct	Calls Feb	Calls May	Puts Oct	Puts Feb	Puts May
Grand Met	390	41	50½	55	7	16	22
(*417)	420	21½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ladbroke	180	18½	23½	25½	9	14	19½
(*189)	200	8	14	16	21½	25½	31½
Utd Biscuits	360	34	43	47½	12	18½	27
(*380)	390	17	27½	32	27½	34	43

Option		Calls Oct	Calls Dec	Calls Mar	Puts Oct	Puts Dec	Puts Mar
Rexam	160	22½	25	26½	6½	11	14½
(*172)	180	10	14½	18½	16½	22	25½

Option		Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
Eurotunnel	420	29	51	-	20½	36½	-
(*425)	460	12½	33	-	45½	58	-
[illegible]							
Abbey Natl	390	12	24½	33½	12½	18	26
(*393)	420	2½	11½	18½	34½	38½	44½
Amstrad	30	6	7½	8	1½	2½	3
(*34)	35	3	4½	5½	3	3½	6
Barclays	460	32½	46	-	7½	15½	-
(*486)	500	9	24½	-	28	35½	-
Blue Circle	260	16½	26	-	8	17½	-
(*266)	280	7	15	-	19½	28	-
British Gas	300	16½	21½	27	8	13	17
(*309)	330	3½	8	13	23½	32	34½
Dixons	200	22	30½	35½	4	9½	14
(*216)	220	10	20	25	18	19	23

FT-SE INDEX [illegible]

August 2 Total Contracts 32,418
Calls 18,024 Puts 14,394
FT-SE Index Calls 6,452 Puts 7,245
Euro FT-SE Calls 2,542 Puts 1,512
*Underlying security price. †Long dated expiry dates.
Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Mon Aug 2	Day's change %	Fri Jul 30	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (25)	128.25	+0.07	128.16	1.26	7.35
2	5-15 years (23)	151.58		151.91	1.50	8.42
3	Over 15 years (9)	166.84	-0.04	166.90	1.56	7.18
4	Irredeemables (6)	193.36	+0.90	191.64	2.53	7.35
5	All stocks (63)	147.49	+0.02	147.62	1.44	7.92
	Index-Linked					
6	Up to 5 years (2)	187.29	+0.08	187.14	1.61	1.92
7	Over 5 years (11)	178.91	+0.23	178.49	0.59	[illegible]
8	All stocks (13)	178.94	+0.22	178.56	0.70	3.65
9	Debs & Loans (65)	137.11	+0.08	137.08	2.76	5.05

AVERAGE GROSS REDEMPTION YIELDS

			Mon Aug 2	Fri Jul 30	Year ago (approx.)
	British Government				
1	Low	5 years	6.61	6.62	8.85
2	Coupons	15 years	7.80	7.82	8.89
3	(0%-7¾%)	20 years	7.74	7.77	8.89
4	Medium	5 years	6.74	6.75	9.51
5	Coupons	15 years	7.74	7.73	9.08
6	(8%-10¾%)	20 years	7.82	7.82	9.01
7	High	5 years	6.97	6.97	9.73
8	Coupons	15 years	7.95	7.92	9.30
9	(11%-)	20 years	7.98	7.98	9.19
10	Irredeemables (Flat Yield)		7.95	7.92	9.15
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	[illegible]	2.75	4.49
12	Inflation rate 5%	Over 5 yrs.	3.37	3.38	4.59
13	Inflation rate 10%	Up to 5 yrs.	1.96	1.97	3.86
14	Inflation rate 10%	Over 5 yrs.	3.19	[illegible]	4.41
15	Debs &	5 years	8.34	8.35	10.64
16	Loans	15 years	8.56	8.56	10.43
17		25 years	8.82	8.82	10.30

BBA plans to focus on four core activities

By Roland Rudd

BBA, the engineering group, yesterday said it would focus on four core businesses as it reported half year profits to the end of June.

In response to its critics, who have attacked the group for lacking strategic consistency, Mr Vanni Treves, chairman, said the group would concentrate on building up its automotive, industrial, aviation and electrical businesses.

Mr Treves said: "We are not oblivious to what the institutions have been telling us. However, we decided to articulate the new strategy, which has been evolving for some time, without prompting from anyone."

Operating profits increased from £40.9m to £45.3m as the group benefited from further cost cutting.

The automotive business, which bore the brunt of the redundancy and reorganisation costs, saw profits fall from £17.4m to £18m.

Industrials increased profits from £17.9m to £23.7m as its businesses continued to cut costs.

Aviation profits rose from £5.6m to £8.6m as programmes were reduced and delivery schedules delayed because of difficulties in the worldwide aviation market.

● COMMENT

When a company seeks to reassure investors that it has no plans to ask for more cash for the foreseeable future it is a sure sign that things are not what they ought to be. Equity issues to fund a rapid succession of deals may have looked attractive in the roaring 1980s, but not in the more sober 1990s. After six share issues in eight years, BBA's investors are understandably weary of cash calls. The share price peaked in 1986 at 274p; it yesterday fell 1p when the market rallied to close at 166p. BBA is now talking about a new stage of consolidation which involves focusing on four core businesses. It is a message many of the group's investors have longed to hear, and happens to coincide with the departure of the the managing director responsible for the empire-building. With forecast pre-tax profits of £65m, giving earnings per share of 7.5p, the shares are on a hefty prospective multiple of 22.1. Investors should hold on unless the company goes back to its bad old ways of issuing more shares.

Trevor Humphries

Vanni Treves: the new strategy has been evolving for some time

Chrysalis closes MAM Leisure after losses

By Michael Skapinker, Leisure Industries Correspondent

CHRYSALIS, the music and media group, is to wind down MAM Leisure, its amusement machines subsidiary, and withdraw from the business.

Chrysalis expects MAM Leisure, which employs 400 people, to report a loss of £6m in the year to end-August, following a deficit of £1.8m last year.

Mr Chris Wright, chairman, said the business could not return to profitability without further rationalisation and considerable investment.

The business had been badly hit by recession, but had also been adversely affected by the fall in the number of people in the 18 to 25 age group.

The group said it expected to have withdrawn from the business by the end of 1993.

It said it was not yet clear whether all 400 employees would lose their jobs as there was still a possibility that small parts of the business might be sold to local operators.

Chrysalis had considered several options before deciding to close the business.

After failing to find a buyer for the subsidiary, the group considered withdrawing from several British regions and concentrating on the most densely populated parts of England. It decided, however, that this would not solve its problems.

See People

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Abbey National ....int	4.15	Oct 11	3.8	-	11.5
Ashtead ....fin	3.405	Oct 8	3.025	4.538	4.125
BBA ....int	2.25†	Nov 13	2.25	-	7.5
Scot National ....int	1.8‡	Oct 7	2.1	-	8.85

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡Third interim: makes 4.9p to date.

Scheme for LUI subsidiaries

By Richard Lapper

PROVISIONAL liquidators of the insurance subsidiaries of London United Investments are expected to publish a scheme of arrangement before the end of this month.

LUI, the insurance to property conglomerate, collapsed early in 1990.

Its subsidiaries, Kingscroft Insurance, Walbrook Insurance, El Paso Insurance, Lime Street Insurance and Mutual Reinsurance – collectively referred to as the KWELM companies – have outstanding liabilities to policyholders amounting to some $5bn (£3.3bn).

The business underwritten by the KWELM companies consisted mainly of general and product liability insurance for North American companies, together with professional indemnity insurance for accountants, architects, engineers and lawyers, and medical malpractice insurance for doctors and hospitals.

Most of the business was written through HS Weavers (Underwriting) Agencies between 1972 and 1990.

Mr Chris Hughes and Mr Ian Bond, both partners in Coopers & Lybrand, will seek creditors' approval for a scheme of arrangement rather than a straight liquidation.

They believe a scheme of arrangement offers the best prospects for the 100,000 plus actual or potential creditors of the companies.

The provisional liquidators have recovered or secured more than $280m since their appointment.

They are attempting to recover further insurance assets from more than 600 reinsurers worldwide.

£3m offer for loss-making Etonbrook

By Catherine Milton

MR ALEX Perloff, the erstwhile rebel shareholder of Etonbrook Properties who staged a boardroom coup and took the chair himself, yesterday announced that companies in which he has interests had agreed a cash offer for Etonbrook.

The two investment companies, Panther and Multitrust, already own 1.26m shares – some 32.9 per cent of the shares or 25.8 per cent of voting rights. They are offering 79p per share, a premium of 1.3 per cent over the 78p closing price on July 29, valuing the company at about £3.03m.

Etonbrook yesterday reported pre-tax losses of £1.23m in the year to March 31 compared with profits of £181,214. It showed net current assets of about £4.4m (£5.99m).

Losses per share were 34.3p compared with profits of 1.3p last time. There is no dividend.

The new board has decided not to compensate the company's former directors and has made a provision towards costs that could arise from legal claims.

Directors intend to investigate the original acquisition of properties from Palmerston Investment Trust, in particular a property bought for £3.5m in 1989 now valued at £250,000.

Midland & Scottish writes off oilfield

By Catherine Milton

MIDLAND & Scottish Resources has written off the entire value of its Emerald oilfield east of Shetland after "conversations" with its auditors.

It said the 1992 accounts, to be published shortly, had been prepared on a going concern basis assuming the group's lenders would continue their support for the Emerald Field project. The shares fell 3½p to 12p.

The USM-quoted oil company published results for 1992 which included a provision of £80m (£38.9m) against the Emerald Field development, warning that audited accounts would be delayed pending a full assessment of a drilling programme.

The provision has been increased to £97m, deepening 1992 pre-tax losses from £97.4m to £113.6m (£46.4m).

Production in the Emerald Field was originally delayed by a protracted dispute over equipment with Davy Corporation, settled in May 1992.

The company said the Emerald Field would continue to provide positive cash flow. The extent to which cash flow would service related debt depended on the total reserves recovered from drilling new wells.

MSR said: "Without such wells the projected production and the cash flows based on that production are not now expected to generate a material surplus beyond that required to meet obligations to non-banking creditors."

It added: "The full accounts explain that the group has received confirmations from relevant lenders of their present intention to continue support for the Emerald Field project which has allowed the directors to prepare the accounts on a going concern basis."

Directors expect any shortfall to be recovered from the floating production platform, being built in Italy with Italian government backing, to be delivered in 1994. The platform is now MSR's principal asset.

Ashtead improves 22% to £2.76m

By Paul Taylor

ASHTEAD, the plant and machinery hire group, reported a 22 per cent increase in annual profits and said that current trading was "well up on the same period last year and margins are now strengthening."

Pre-tax profits increased to £2.76m in the year to April 30 against £2.27m last time when profits were reduced by a £65,000 exceptional charge.

Of the £489,000 increase, £386,000 came in the second half and Mr Peter Lewis, chairman, said the stronger second half performance had continued into the current year.

Turnover increased by 10 per cent to £33.9m (£30.8m) with all three divisions achieving increased sales and rental income now accounting for 89 per cent of the total.

Earnings per share rose 35 per cent to 9.7p (7.2p); an increased final dividend of 3.405p makes a total of 4.538p (4.125p).

Mr Lewis said: "The results reflect the strategy we have been pursuing since 1990. We have maintained investment, reshaped our customer base and entered new markets. As a consequence, and almost entirely through organic growth, we have increased our market share and strengthened the position of each of our businesses."

Total capital expenditure increased to £10.5m (£7.8m), including £8.8m on plant, comfortably exceeding the depreciation charge of £7.93m (£7.46m). Reflecting the high level of capital expenditure net borrowings increased to £10.3m (£8.4m) at the end of April, equivalent to gearing of 50 per cent, up from 43 per cent a year earlier.

A-Plant, the core plant hire division, lifted turnover by some 7 per cent to £26.9m, further increased its market share, and reported trading profits of £9.73m (£9.39m).

● COMMENT

Ashtead's strategy through the recession should stand it in good stead now the recovery appears to have arrived. The group has continued to invest heavily in new plant, has reduced its dependency on construction from 80 per cent of turnover in 1990 to less than 40 per cent today and has emphasised industrial plant hire, rather than sales. Although the hire market has shrunk, Ashtead has managed to boost market share and push up prices recently. Having climbed from a low of 90p last September the shares gained another 19p yesterday to close at 236p. With pre-tax profits of some £3.5m expected this year and earnings of 11.7p the shares are trading on a lofty prospective p/e of about 20, but are still worth buying on signs of weakness.

Whitecroft ex-directors share £165,000 pay-off

By Paul Taylor

WHITECROFT, the Cheshire-based mini-conglomerate which reported a £41.8m pre-tax loss in the year to March 31, paid a total of £165,000 in compensation for loss of office to two former directors.

The payments were made to Mr Peter Goold, former chairman, and Mr Graham M'Cardell, finance director, and were disclosed in the company's annual report. The total payment was not broken down between the two men.

Mr M'Cardell retired from the board in early March after reaching normal retirement age, while Mr Goold resigned later that month after 24 years with the company, the last two as executive chairman.

Mr Goold's resignation was seen as an attempt to appease the group's institutional investors, who had watched the share price tumble.

He was succeeded in a non-executive capacity by Mr David Kendall, chairman of Bunzl. Mr Mike Derbyshire – brought in by Mr Goold as managing director last year – became chief executive, and Mr M'Cardell was succeeded by Mr Martyn Ellis.

CONTRACTS & TENDERS

LEGAL NOTICES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

COMPANY NEWS: UK

Weir expands with £16m of acquisitions

By Andrew Baxter and Daniel Green

WEIR GROUP, the Glasgow-based engineering company, is paying about £16m for a package of UK, US and Australian businesses

The companies being acquired are owned by Darchem, the wholly owned subsidiary of William Baird, one of Britain's biggest clothing manufacturers.

The deal is Weir's second biggest acquisition to date after the £30m it paid in 1990 for Strachan & Henshaw, the mechanical handling specialist. It continues the group's strategy of focusing on specialist engineering products and services worldwide

For William Baird, also based in Glasgow, the sale is its second in eight months of non-core businesses. The company said yesterday it planned to make further disposals to concentrate on clothing, textiles and distribution.

Weir has bought Darchem Engineering, Hoyt Darchem, Expert Heat Treatments, The Hoyt Metal Company of Australia and Darchem Engineering of California.

These make a range of products including insulation systems, fabricated components, specialist anti-friction alloys and white metal bearings, as well as providing heat treatment services. The companies have annual sales of about £28m and made pre-tax profits last year of £2.9m.

Mr Ron Garrick, Weir's managing director and chief executive, said the Darchem businesses would complement and broaden Weir's product range and offer new business opportunities.

Weir, best known for its pumps, has spent about £120m on 23 acqusitions in the past six years, and sold nine businesses worth nearly £40m in the same period.

The £16m price tag compares with £8m of adjusted end-1992 net assets for the businesses Weir is buying.

Mr John Dean, analyst at Albert E Sharp, the Birmingham-based broker, said: "It is not like Weir to pay significantly over net assets, and this reflects well on the profitability of the Darchem businesses."

Weir said the acquisitions would make a positive contribution to earnings. The group earned 35.5p per share last year on turnover of £424.8m and pre-tax profits of £39.2m.

William Baird's Darchem subsidiary is its umbrella company for non-textiles and clothing businesses. Last December, William Baird sold most of Darchem's contracting side to Cape, the industrial services and building products group controlled by Charter.

It still owns the building services division of Darchem as well as several small companies in motor components that it was unable to sell to Weir or Cape.

The £16m from the Weir deal will initially add to the company's cash pile, which stood at £2m at the end of the last financial year.

"The cash released from the disposal of these businesses will be invested in the group's principal activity in clothing and textiles," said Mr Donald Parr, chairman.

Govett to acquire US trust for $3.8m

By Philip Coggan, Personal Finance Editor

GOVETT & Company, the fund management group, has agreed to buy the North American Trust Company for $3.8m (£2.55m) from the Bank of San Diego.

The trust company provides pension trust services to law firms and medical services groups in the US and currently administers some $1.4bn of assets. Govett already has a Jersey-based trust company, London Pacific.

Mr Ian Whitehead, chief financial officer, said the purchase gave Govett the administrative and operating capability to manage trust accounts for high net worth individuals, and allowed it the chance to cross-sell its investment management services. Trust companies are a source of high quality earnings, he said.

The agreement is subject to regulatory approval which is expected to be granted within six to eight weeks.

Oceonics declines to £2m and seeks £4.35m

OCEONICS GROUP, a provider of survey and positioning services, reported pre-tax profits down from £2.72m to £2.04m from revenues up 4 per cent £30.1m in the year to end-March.

The company also announced plans to raise £4.35m by a placing and open offer of redeemable preference shares and the redemption of existing preference shares.

Operating profit was £2.2m (£3.2m) after depreciation of £2.6m (£2.3m) and a charge of £141,000 in respect of exceptional losses on foreign currency overdrafts which were repaid during the year.

Net interest payable fell to £196,000 (£489,000) and tax took £843,000 (£864,000). This year's charge included £116,000 relating to prior years, principally to profits of overseas subsidiaries, some of which could not be offset against losses brought forward in other subsidiaries.

After an extraordinary charge of £426,000 retained profits were £724,000 (£1.75m). Earnings per share were 0.6p (1.2p).

The company is to issue 4.63m 6 per cent cumulative convertible redeemable preference shares. All of the new preference shares have been placed with institutional investors at par.

Existing holders can apply on the basis of one preference share for every 30 ordinary held.

The placing is conditional on approval by holders of existing 9.25 per cent preference shares for their redemption at par plus payment of arrears and accruals of dividend in full.

In addition payment of a special dividend of 1p per existing preference share is proposed.

Most of the placing proceeds will be used to redeem the existing preference shares. The balance of some £853,000 will provide additional working capital.

NEWS DIGEST

McInerney suspended at 9p

SHARES IN McInerney Properties, the Dublin-based construction company, were suspended on the London Stock Exchange at 9p yesterday, pending clarification of its financial position.

As revealed last month, the company is in talks with certain non-bank creditors regarding a rescheduling of repayments due on sums amounting to some I£1.43m (£1.35m).

The discussions, the company said, had taken longer than originally anticipated, although some progress had been made. However, one creditor, whose debt amounts to I£250,000, had taken action against McInerney in the UK courts.

Depending on the outcome of the talks, the preliminary results could be materially altered, and the future of the company remained uncertain, directors said.

Scottish National

The split capital Scottish National Trust had a net asset value of 67.3p per capital share at June 30.

The figure marked a sharp recovery from the value of 21.9p a year earlier and just 2.8p at the trust's September year-end.

Net revenue for the nine months to end-June declined to £9.24m (£11.32m), equivalent to earnings of 5.11p (6.44p) per income share. A third interim dividend of 1.8p reduces the total so far to 4.9p (5.8p).

Five Oaks

Five Oaks Investments, the property investor and developer, is raising £12.2m in a placing and open offer of 47m new shares at 27p.

The proceeds will mainly be used to finance the acquisition of a portfolio of Scottish properties.

Four properties are being acquired together with an option on a fifth.

Consideration is £8.27m and the issue of 3.5m shares credited as fully paid, making an aggregate value of £9.2m.

The balance of the proceeds from the placing and offer will be used to reduce borrowings.

Robert Fleming has underwritten 32.9m of the shares which have been conditionally placed with institutional investors.

Shareholders may apply for shares under the open offer on the basis of 1-for-1. British Land is taking up its full entitlement. Brokers are UBS.

Five Oaks also said that its pre-tax loss for the year to June 30 would be not more than £900,000.

N'humbrian Water

Northumbrian Water, the smallest of the 10 UK privatised water companies, has acquired a leasing management company as part of its treasury management programme.

The company has bought Hambros Leasing, which carries debt of £46.5m for a nominal £100. Hambros Leasing will be renamed NWG Leasing and will generate £57.2m in the form of lease rentals receivable over the few years.

African Lakes

African Lakes, the motor trading, mining and agriculture group, recorded a deficit of £181,184 pre-tax for the six months to March 31.

The outcome, which came on turnover ahead to £25m (£22.7m), compared with profits last time of £485,330.

The figures were compiled under FRS 3.

Losses per share emerged at 4.51p, against earnings of 0.69p, or after adjustment, losses of 5.01p.

Drayton Far East

Drayton Far Eastern Trust had a net asset value of 135p per share at June 30 against 107.3p six months earlier and 90.7p at the previous half year.

First-half earnings came out at 0.624p (0.454p) per share and the interim dividend is held at 0.125p.

Castle Cairn

Net asset value per share at Castle Cairn Investment Trust stood at 57.34p at June 30, compared with 49.78p a year earlier.

Available revenue for the six months to end-June improved from £55,000 to £69,000 for earnings per share of 0.57p, against 0.46p.

Cairn Energy

Cairn Energy, the oil and gas exploration company, has raised $17.3m (£11.6m) through the issue of new shares in CEUSA, its US subsidiary.

Receipts from the sale, leaving the UK group with a 64.1 per cent stake, will be used by CEUSA to repay debts of $2.6m to Cairn and $3.6m in redemption of preferred stock.

Inoco

Inoco, the property development company, swung back in the black with pre-tax profits of £834,000 for the six months to June 30, against a loss of £446,000.

The turnround was partly due to lower interest charges of £2.3m, down from £3.7m.

Earnings per share were 0.4p (losses of 0.23p).

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, August 2, 1993. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)	COUNTRY		£ STG	US $	D-MARK	YEN (X 100)	COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Special Drawing Rights July 30, 1993 United Kingdom £0.938231 United States $1.39072 Germany D Mark 2.41944 Japan Yen147.277
European Currency Unit Rates August 2, 1993 United Kingdom £0.751033 United States $1.11303 Germany D Mark 1.92868 Japan Yen118.824

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar (v) Floating rate; ♣ CIS applies to states in the Rouble Zone. ♦Brazil: 2.8.93, currency renamed Real Cruzeiro.
Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.
Monday August 2, 1993

COMPANY NEWS: UK

New drink tastes force take-home changes

Philip Rawstorne considers the background to Bass's sale of Augustus Barnett to Allied-Lyons

BASS's impending sale to Allied-Lyons of its Augustus Barnett off-licence chain continues the consolidation of specialist retailers in the face of aggressive competition from the multiple grocers in the take-home drinks market.

The deal, worth an estimated £40m, will enlarge Allied's Victoria Wine business, giving it about 1,500 shops throughout the country and closing the gap on Whitbread, the market leader.

Whitbread bought the Peter Dominic chain from Grand Metropolitan for £49.5m nearly two years ago to boost its Thresher retail operation to about 1,600 outlets.

In 1991, Greenalls Group also increased its Cellar 5 off-licences to nearly 500 with the acquisition of Blayneys from Vaux, the north-east England brewer.

The moves are a response to growing changes in British drinking habits.

An increasing amount of alcohol is being drunk at home, rather than in pubs or restaurants – more wine with meals, more beer by the television set, more whisky nightcaps.

In the 1960s only 2 per cent of beer was drunk at home. Ten years ago the proportion had grown to 10 per cent. Today it is more than 20 per cent.

The take-home trend has been accelerated by recession with consumers seeking better value by staying at home with a six-pack instead of having a night on the town.

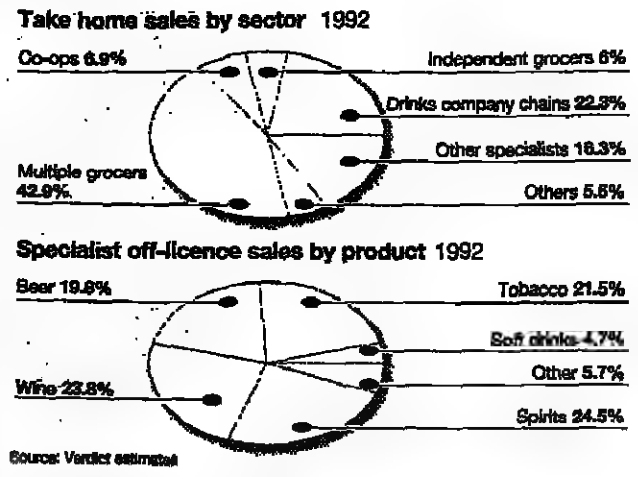
But many other forces are driving the development, including the drink-driving laws, an ageing population and more home entertainment facilities.

A growing taste for wine, which now accounts for 20 per cent of UK alcohol sales compared with 9 per cent in 1965, has contributed to the trend. So has the swing to imported bottled lagers and the improvements made by brewers to canned ales and stout.

"New experiences in drinking are very much in vogue," says Verdict, the retail analyst, and the take-home trade has proved adept at encouraging and satisfying the demand for variety.

As a result, take-home is one of the fastest growing sectors of the drinks market, worth an estimated £6.1bn, about 25 per cent of the total spent on drinks last year.

With wine sales amounting to £2.12bn, spirits to £2.04bn, and beer to £1.73bn, according to Verdict, drinks form one of the largest areas of consumer spending and the fight for a share is fierce.



Source: Verdict estimates

The grocery trade claims 55 per cent of the overall market with eight supermarket chains – J Sainsbury, Tesco, Argyll, Asda, Gateway, Kwik Save, Waitrose and Morrison – accounting for 43 per cent.

The chains have been steadily enlarging their share by tight control of costs and prices, greater allocation of shelf space and an expanding range of products.

Sunday opening and extended evening trading have recently added to their competitive edge.

Tesco illustrated the focus on price a few weeks ago by importing cheap Stella Artois lager through its French subsidiary rather than buying from Whitbread, which brews it under licence in the UK.

But the sheer range, and increasingly skilful choice, of the supermarkets' offerings have been equally important in growing sales.

In the past four years, according to Verdict, Tesco has more than doubled the shelf space devoted to drinks in its stores. It has raised the number of different wines from 370 to 650. Its complement of 100 beers is the most comprehensive in the market.

Sainsbury offers almost as many beers and last year featured 400 wines, with a greater emphasis on vintage products.

These two supermarket groups, each with market shares of more than 9 per cent, have headed the apparently irresistible advance of the grocers.

Specialist off-licences, in many cases established by brewers primarily as outlets for their own products, were slow to respond. But they are now mounting a more robust resistance.

The Thresher/Peter Dominic merger has given Whitbread national coverage and market leadership with a 10 per cent share, enabling it to match the purchasing power of the multiples.

Allied-Lyons should gain similar advantages from combining its Victoria Wine business, where sales grew by 6 per cent last year, with Augustus Barnett. Greenalls' retail strength in north-west England has been complemented in the north-east by the acquisition of Blayneys.

Oddbins, owned by Seagram, the Canadian drinks group, has compensated for its lack of scale – it has about 175 stores – by carving out a niche as the country's leading wine merchant. It sells 1,650 different wines with an off-beat, but knowledgeable, approach to marketing which appeals equally to young consumers and serious wine buffs.

Unwins, a family-owned chain of 294 shops, which this year celebrates its 150th anniversary, has survived by a gradual move up-market.

The specialist retailers are fighting back by stronger merchandising and a greater emphasis on personal service, including items such as customer advice and home delivery.

They are using local consumer research to segment their stores, matching their stocks, which in some areas now include convenience foods, more closely to neighbourhood demands.

Most of the bigger groups have also invested in computerised information systems, following the multiple grocers in gaining more immediate sales data and tighter stock control.

The top half dozen specialists, with 63 per cent of off-licence sales and a 24.3 per cent share of total take-home sales, are now better equipped for the battle against the multiples.

For the smaller, independent retailer caught between the two forces, the future looks bleak.

Group 4 to concentrate on guarding businesses

By Andrew Bolger

GROUP 4, the private security company, is to sell its cash-in-transit business to the UK arm of Mayne Nickless, the Australian-quoted security company.

In return, Group 4 will acquire Security Express Guards, Mayne Nickless's guarding business, which employs about 2,000 people. Group 4 will also receive a substantial cash payment.

Mr Jim Harrower, UK chief executive of Group 4, said pressure from the banks meant the cash-in-transit business offered low profit margins and his group had decided to focus on guarding.

The cash-handling business being sold by Group 4 employs 1,200 people, with annual revenue of £25m. Together with its existing cash-in-transit businesses, Security Express and Armaguard, this deal means Mayne Nickless will dominate the cash-in-transit market and should be able to achieve better profit margins.

Security Express Guards will be merged with Group 4 Total Security to become the biggest provider of manned guarding services in the UK.

Discussions have been held with the Office of Fair Trading and both companies believe the arrangement will not be referred to the Monopolies and Mergers Commission.

Before this deal, which will boost revenue by £23m, Group 4 Total Security had annual sales of about £82m, and employed 8,000 people.

Bid talks give fillip to Spring Ram shares

By Andrew Bolger

Shares in Spring Ram rose 15p to 69p yesterday after it confirmed that talks had taken place with several parties "which may or may not lead to an offer" for the bathrooms and kitchens group.

The Yorkshire-based company named one of the parties, Masco Corporation, a large US building products group, but said the approaches were of a preliminary nature, and it was unlikely that any decision would be made for some time.

Mr Roger Regan, who last week took over as chairman of Spring Ram, said he was concentrating on the company's interim results announcement on September 22.

Sibelco extends hostile bid for Watts Blake

By Peggy Hollinger

SIBELCO has extended its hostile £87m offer for Watts Blake Bearne, the world's biggest supplier of ball clay.

The private Belgian group, which produces silica sand for the glass industry, said it had received acceptances representing 0.6 per cent of Watts' shares, bringing the total controlled or owned to 45.7 per cent.

Sibelco was now seeking control, an adviser said, although previously the group had said Stock Exchange requirements to make an offer once a holding had gone above 30 per cent was the impetus for its bid.

If the Belgian company does not win control, it may buy up to 1 per cent a year without making a second offer. Sibelco was determined to hold on to its investment, an adviser said.

Watts yesterday welcomed the small number of acceptances as proof that the bid undervalued the company. It added that it regretted "the further period of uncertainty" the extension would cause.

Watts has been on the block since January when three shareholders, including Sibelco, decided to sell their stakes, totalling 45.2 per cent.

When no buyer was found, Sibelco launched its own bid at 420p a share in June. Ceramics Holdings, with 15.6 per cent, accepted the bid, while Quarzwerke of Germany, with 14.8 per cent, agreed to act in concert with Sibelco.

Amstrad looks to the east for satellite growth

By Andrew Adonis

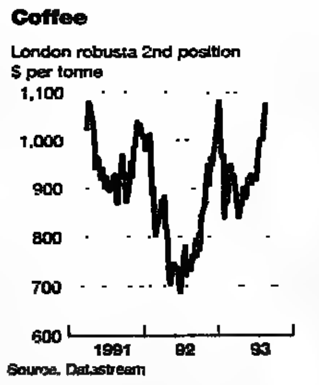
Amstrad is hoping to lift sales of its satellite receiving equipment in the Asia Pacific and Middle East regions following a distribution agreement with Pan Asian Systems, a subsidiary of Hutchison Whampoa.

Nearly a third of Amstrad's turnover comes from satellite equipment. Hutchison is one of the largest distributors of satellite receiving equipment in the two regions.

Amstrad will market its equipment as able to receive broadcasts from Star TV, the Hong Kong-based satellite television broadcaster, in which a 63.6 per cent stake was acquired last week by News International.

Coffee prices in London jump to 2½-year highs

By Alison Maitland



COFFEE PRICES leapt to their highest levels for nearly two and a half years on the London market yesterday after a light frost hit some growing areas in Brazil and Latin American exporters agreed details of their new cartel.

The November futures price for robusta – the new second position – touched $1,104 a tonne, its highest level since March 1991, before easing to close at $1,074, up $31.

The initial rush to buy was mirrored in New York, where the December arabica contract reached a peak of 81.15 cents a lb in early trading before easing to 79.9 cents later, up 0.85 cents.

Fund and speculative buying as well as trade interest fuelled the rise in London, surprising traders who had expected little change in prices.

The unexpected cold spell in Brazil, the world's largest producer, affected parts of the southern state of Parana where only 10 per cent of the coffee is grown, and appeared to be short-lived.

There were no initial reports of damage to trees.

Uncertainty about the effect on next year's crop, however, excited a market already bullish about the possibility of tighter supplies following the Latin American export retention scheme agreed at the end of last week.

"We've had a good rise on the market and technically and fundamentally it may have done enough for the moment," said one trader, adding that the implications of the Latin American plan had already been largely absorbed.

Latin American producers, anxious to lift prices after the collapse earlier this year of talks on reviving the international coffee export quota system, agreed their new scheme would run from October 1.

They plan to hold back 20 per cent of exports if the indicator price set by the International Coffee Organisation remains below 75 cents a lb. If it rises to between 75 cents and 80 cents they will retain only 10 per cent, while for a rise between 80 cents and 85 cents they will neither hold back stocks nor release those retained.

A price of 85 cents a lb or more would trigger the release of stocks on to world markets, with a new management committee deciding when and how this should be done. The ICO price is currently just below 62 cents.

"They're coming up with a very realistic plan and not setting their sights too high in terms of prices," said Mr Lawrence Eagles, commodities analyst with London broker GNI. "But there's still a question mark as to how long it can last with producers alone and how consumers will react."

The Latin Americans, accounting for more than 50 per cent of world production, will take their scheme to a meeting of the world's main coffee exporters in Kampala on August 16 and 17. Consuming countries' responses should become clear at the International Coffee Organisation meeting on September 16.

Sumitomo rejects copper squeeze speculation

By Kenneth Gooding, Mining Correspondent

MR YASUO Hamanaka, the senior manager responsible for Sumitomo Corporation's copper trading operations, has been described by many London Metal Exchange traders as the single most powerful man in the copper market.

So it is not surprising that his name has been mentioned most frequently in discussions about the "squeeze" threatening to create turmoil on the LME's market in September and October.

One trader said yesterday that Sumitomo had reached a position "where if it were October today, it would control all the LME stocks".

There have been other widespread suggestions that the copper market is being manipulated to boost the price even though stocks in LME warehouses are at a 15-year peak. The LME board has voiced its concern by twice giving warnings that it has the authority to take any action necessary to maintain an orderly market.

Mr Hamanaka, however, denied that Sumitomo – or any other organisation – was attempting to manipulate copper prices upwards. "It would be impossible to do so when demand [for the metal] is so fundamentally weak," he said.

Sumitomo is one of the world's leading traders of physical copper, as distinct from the "paper" variety on futures exchanges. It handles 500,000 tonnes a year for clients, mainly in Asia and the Far East but increasingly in Europe too.

Like many other Japanese corporations, Sumitomo is forbidden to speculate in commodities markets. Nevertheless, it does hedge its copper market dealings by trading futures and options along with buying copper for immediate delivery. In this way it exerts a tremendous influence on the market.

Mr Hamanaka suggested the acute supply tightness that had developed on the LME market between September and October was highly technical and could be traced to the steep fall in copper prices in May, from which "there had to be some reaction".

He added that the backwardation (premium for metal for immediate delivery) for September to three months could not be justified.

It was unlikely to become unusually large and would probably range between $10 and $30 a tonne. (During a similar squeeze in 1991, when the LME still quoted copper in sterling, the LME board took the unprecedented step of limiting the backwardation to £25 a tonne a day after it threatened to go above £100).

"Demand [for copper] in Europe is weak. The US is recovering but is not booming. The Asian market is steady but only average," Mr Hamanaka pointed out.

Mainland China would probably consume 800,000 tonnes of copper this year, compared with domestic production of about 500,000 tonnes, and Sumitomo estimated that 40,000 to 50,000 tonnes of the metal was shipped from Europe to China in July. "I hear the Chinese will continue to take more copper to stockpile."

UK grain farmers grapple with new variables

Currency volatility and floods in the Mississippi basin bode storms for harvesters

FARMER'S VIEWPOINT

By David Richardson

THE LEGEND of St Swithin lives on. It rained on his day, July 15, and precipitation seems set to continue for most of the following 40 days.

Nevertheless, weather permitting, the UK cereals harvest will need to swing fully into gear in the next few days. Most farmers in the south have already dodged the storms and showers of the past couple of weeks to make a stuttering start at combine harvesting their winter sown barley fields. Spring sown barley is now almost ready too, as are the earliest fields of winter sown wheat. Little harvesting has so far been carried out in the north but the only thing delaying it is the lack of a dry spell.

The weather, good or bad, is a frustrating variable that is usually accepted by farmers with equanimity. Variations in supply and demand are recognised as inevitable influences on returns, although many farmers have not yet come fully to terms with the fact of declining guaranteed prices and less secure market outlets as a result of CAP reforms.

International currency volatility is the relatively new variable over which farmers realise they also have no control.

Let us consider those variables in turn.

First supply and demand: in the past few years UK farmers have grown about 22m tonnes of cereal a year while domestic demand has been about 16m tonnes, leaving 6m tonnes for export. By good fortune as well as good farming the recent quality of UK grain has been good enough to attract buyers from abroad to take up almost every tonne of the country's domestic surplus.

The British balance of trade had benefited to the tune of some £750m a year and UK intervention stores have been virtually unused. Mainly as a result of new set-aside regulations the exportable surplus could well be halved this year.

Questions, however, are being asked about the suitability and price of some UK grain for export. Much of the barley harvested in the south and west of England is reported to be thin and to contain high percentages of screenings – undersized grains which fall through a sieve designed to screen them out of the sample. If the proportion falling through the sieve is greater than 6 per cent, and reports suggest that in many samples it is up to 12 per cent, the barley is only fit for animal feed.

Most samples of malting barley from East Anglia are better than that and should, on the face of it, be ideal for the export trade. But Denmark, Britain's greatest competitor for export markets, is reported to have a big crop, although it is still in the fields. And France, which harvests its crops before more northerly nations, has already begun to supply barley to breweries in Belgium and elsewhere at prices British merchants would find difficult to match.

It has also been estimated that France has 500,000 tonnes of malting barley available for export and Denmark a potential 700,000 tonnes. The total demand across the European Community – now that the old East Germany is supplying all that the old West Germany needs – is a mere 500,000 tonnes.

It is hardly surprising therefore that the prices being bid for UK malting barley are only about £120 a tonne for the very best samples and much less than that for anything of lower quality. This figure represents a reduction from last year's best prices of up to £50 per tonne, the benefit from which will doubtless be pocketed by the brewers. It would be surprising and entirely out of character if they cut the price of a pint of beer.

One of the reasons why the French are able to undercut British exporters is the decline in the value of the French franc and the relative strength of sterling. Even before last weekend French merchants were gambling on the value of their currency falling. They were selling grain in other harder currencies on the assumption that they would soon be able to buy more French francs with them. The immediate effect was to reduce the bid price for British barley by £5 per tonne.

Paradoxically the British merchants and the farmers who supplied them were in a similar situation last September when sterling fell out of the currency system. It is not so pleasant when the boot is on the other foot.

British guarantee prices for basic commodities, such as feed barley and wheat, as compared with specialist products like malting barley, however, are still substantially better than they would have been without the devaluation of the pound.

And then there is the perennial problem of the weather – here and abroad. In Britain farmers are already worrying about the prospect of an unsettled period, which would make harvesting difficult and expensive. Not only are there more machine breakages in moist conditions as cutter bars of combine harvesters are forced to run close to the ground to pick up the flattened corn, but there are also extra costs of drying the grain. Such weather conditions inevitably lead to lower quality, lower value samples.

Meanwhile, the floods in the Mississippi basin could affect EC arable farmers' returns. There is no doubt that US farmers whose land has been under flood water for several weeks will have no crops to harvest and could face ruin without government support. What is less clear – and conflicting reports and a volatile trade in Chicago confuse the situation even more – is to what extent the floods will cut overall US production of maize and soyabeans.

But if US maize production and carry over stock is significantly reduced, which I suspect is unlikely, the price of EC wheat, which can be used as an alternative animal feed ingredient, could rise. And if the floods lead to a shortage of soyabeans, which is more likely – prices suggest this is already the case – that too could give a lift to other commodity markets. If US soya supplies become scarce the cost of vegetable protein around the world will increase.

It is interesting to note that the last time there was such a soya shortage was in 1973. Then US President Nixon reacted by imposing an embargo on exports and the price of available supplies from South America and the like trebled. This was the main reason why the EC introduced its subsidy system for oilseeds and protein – a system which threatened to derail the recent General Agreement of Tariffs and Trade negotiations.

A similar soya supply situation may occur again just as the possibility of freer trade looms on the horizon.

How fascinating it will be to see President Clinton's reaction if such a scenario materialises.

Indonesia's soya imports to soar

By William Keeling in Jakarta

INDONESIA'S IMPORTS of soyabean meal are likely to rise 150 per cent to 250,000 metric tonnes in the marketing year beginning October 1 following the removal of a 35 per cent import surcharge last June, according to a report by the US embassy in Jakarta.

The report said Indonesian companies supplying feed to the poultry and livestock industry have indicated "tremendous interest in importing [soyabean] meal" now that it is price competitive with alternatives such as fish, cottonseed and rapeseed meal.

The greatest beneficiary of the relaxed regime was likely to be India, which at present accounted for 44 per cent of Indonesia's soyabean imports. The embassy expected the US to increase its exports from 20,000 tonnes in the current marketing year to 60,000 tonnes next year.

Industry officials noted, however, that the government still protected the domestic crushing industry by demanding that feed companies continue to purchase 40 per cent of soyabean meal from Sarpindo, a privately owned company, which has a domestic crushing monopoly.

The report painted a mixed picture of Indonesia's other oilseed industries, oil palm and coconut.

Palm oil exports were forecast to rise 32.6 per cent to 1.6m tonnes in the year to September 30, and then to 1.85m tonnes next year, while total production would rise from 3.25m tonnes to 3.6m tonnes.

"Sustained growth will help boost [palm oil] production near the government's goal of 6m tonnes by the end of the century," said the report.

Coconut copra production, however, was forecast to fall 13 per cent this calendar year to 1.15m tonnes, before making a partial recovery to 1.2m tonnes in 1994.

Coconut oil exports were expected to decline 15 per cent this year to 690,000 tonnes, rising next year to 750,000 tonnes.

Tight cotton stocks may boost prices

WORLD COTTON prices should rise moderately during 1993-94 and 1994-95 because of tight stocks outside China, according to the International Cotton Advisory Committee.

It said the Cotlook A Index could rise from an average of 58 cents a lb during the current season to 65 cents in 1993-94 and 70 cents two seasons from now.

The committee, which groups 44 cotton producing and consuming countries, said stocks outside China were equal to the 1989-90 low of 38 per cent of use. It added that estimates of 1993-94 world production had tightened in recent months.

Production estimates for India and central Asia were reduced to a combined 340,000 tonnes during July. Estimated production in China for 1993-94 was 4.4m tonnes, a drop of 350,000 since June.

"Expectations of lower cotton area in China have been buttressed by government estimates, while reports of pest infestations and low morale among cotton farmers have prompted downward revisions in yields," the ICAC said.

Russia forecasts a higher than expected rise in cereals output

By Leyla Boulton in Moscow

RUSSIA MAY enjoy a sharply improved grain harvest this year of between 120m and 125m tonnes, up from 106.8m tonnes last year, the deputy prime minister responsible for agriculture said yesterday.

Deputy prime minister Alexander Zaveryukha also confirmed an official estimate of grain imports falling to 16m tonnes from 26m last year.

The harvest figure he quoted was higher than the recent estimate of 110m to 114m tonnes which was cited by the federal weather service.

It is also much higher than the 94.1m tonnes projected for the Russian Federation by the International Wheat Council in a report published last week.

The IWC put 1993 Russian wheat output at 43m tonnes, compared with 46m tonnes last year, and coarse grains output at 51.1m tonnes, compared with 55.6m tonnes.

WORLD COMMODITIES PRICES

MARKET REPORT

The **ALUMINIUM** market broke out of its recent narrow range yesterday, with the London Metal Exchange's three months delivery position closing $11.75 higher at $1,230.50 a tonne, and moving on to $1,236 a tonne in after-hours trading. Dealers said the resistance band between $1,220 and $1,230 that had prevailed over the past two weeks was overcome by influential European buying and investment fund interest, which triggered stop-loss buying orders during the late kerb. The **NICKEL** market was steadier, as prices were "corrected" on technical grounds, having become oversold recently. Three months metal closed on the LME at $4,975 a tonne, recovering $35 of Friday's $87.50 fall. At the London Commodity Exchange **COCOA** futures emulated the buoyant coffee market (see story above) with the September position ending £9 up on the day at £773 a tonne. Dealers said the market continued to monitor developments in West Africa, where many analysts are predicting poor crops, but otherwise felt prices were building towards a potential move higher. **PRECIOUS METALS** eased back from early, foreign exchange-inspired highs.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Sep)		+ or -
Dubai	$14.50-4.55u	+0.02
Brent Blend (dated)	$16.61-6.63	-0.06
Brent Blend (Sep)	$16.74-6.76	[illegible]
W.T.I (1 pm est)	$17.92-7.94u	-0.04
Oil products (NWE prompt delivery per tonne CIF		+ or -
Premium Gasoline	$193-195	
Gas Oil	$159-160	-1
Heavy Fuel Oil	$61-63	-1
Naphtha	$162-163	-1
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$403.25	-2.5
Silver (per troy oz)♣	533.5c	-4.0
Platinum (per troy oz)	$416.50	+2.90
Palladium (per troy oz)	$143.15	+1.15
Copper (US Producer)	92.00c	+0.50
Lead (US Producer)	34.50c	-0.13
Tin (Kuala Lumpur market)	12.36m	-0.04
Tin (New York)	223.5c	
Zinc (US Prime Western)	62.00c	
Cattle (live weight)†	131.68p	+0.63*
Sheep (live weight)†♠	81.89p	+2.34*
Pigs (live weight)†	71.48p	-5.14*
London daily sugar (raw)	$244.9	+1.6
London daily sugar (white)	$271.5	+5.0
Tate and Lyle export price	£276.0	+1.0
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	Unq	
Wheat (US Dark Northern)	£147.0y	
Rubber (Sep)♥	59.00p	
Rubber (Oct)♥	59.50p	
Rubber (KL RSS No 1 Jul)	208.5m	+0.5
Coconut oil (Philippines)§	$457.5v	
Palm Oil (Malaysian)§	$357.5u	
Copra (Philippines)§	310.0c	
Soyabeans (US)	£207.0	
Cotton "A" index	56.80c	-1.75
Wooltops (64s Super)	357p	+4

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jul. z-Aug.v-Sep/Oct u-Oct t-Oct/Dec x-Aug/Oct ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR – LCE			($ per tonne)	
White	Close	Previous	High/Low	
Oct	260.50	257.20	260.50	257.00
Dec	260.50	257.40	260.50	258.00
Mar	263.50	261.00	263.90	262.80

White 251 (983) Paris- White (FFr per tonne): Oct 1574.92

CRUDE OIL – IPE			$/barrel	
	Latest	Previous	High/Low	
Sep	16.80	16.75	16.84	16.54
Oct	16.93	16.84	16.97	16.69
Nov	17.04	17.00	17.04	16.85
Dec	17.19	17.15	17.19	17.00
Jan	17.33	17.25	17.35	17.24
Feb	17.33	17.33	17.33	17.33
Mar	17.45	17.41	17.45	17.41
Apr	17.46	17.46	17.48	
May	17.55	17.60	17.55	
IPE Index	16.78	[illegible]		

Turnover 16388 (24731)

GAS OIL – IPE			$/tonne	
	Close	Previous	High/Low	
Aug	158.25	159.25	158.75	157.25
Sep	159.75	161.00	160.00	158.50
Oct	162.00	163.25	162.50	161.00
Nov	164.00	165.25	164.50	163.00
Dec	166.25	167.50	166.75	165.25
Jan	168.00	169.50	168.25	167.00
Feb	168.00	169.50	167.25	167.25
Mar	166.75		168.00	
Apr	166.25		165.00	

Turnover 10404 (13464) lots of 100 tonnes

TEA

Landed teas met improved and widespread demand, reports the Tea Brokers' Association. Bright East Africans gained 2p to 4p, sometimes more with quality. Mediums were a little irregular but generally fully firm; plainer teas were also firm. Brighter Ceylons were fully firm to dearer, but plainer sorts closed easier. Offshore: good demand at firm to dearer rates. Quotations: quality 155p, nom good medium 128p, medium 110p and low medium 90p. The highest price realised this week was 164p for a Rwanda pf.1.

COCOA – LCE			£/tonne	
	Close	Previous	High/Low	
Sep	758	748	760	744
Dec	773	764	774	756
Mar	790	781	790	775
May	800	792	801	786
Jul	809	801	808	798

Turnover: 4291 (2289) lots of 10 tonnes
ICCO Indicator prices (SDRs per tonne). Daily price for Jul 30 755.61 (748.48) 10 day average for Aug 2 762.65 (764.09)

COFFEE – LCE			$/tonne	
	Close	Previous	High/Low	
Sep	1072	1036	1100	1040
Nov	1078	1043	1104	1070
Jan	1070	1036	1100	1067
Mar	1067	1037	1090	1070
May	1069	1038	1070	
Jul	1058	1040	1060	1062

Turnover: 5783 (4127) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jul 30 Comp. daily 64.39 (62.73) 15 day average 61.47 (61.17)

POTATOES – LCE			£/tonne	
	Close	Previous	High/Low	
Apr	80.8	82.1	82.0	80.5
May	92.0	92.5	92.5	91.0

Turnover 301 (87) lots of 20 tonnes.

SOYAMEAL – LCE			£/tonne
	Close	Previous	High/Low
Aug	177.00		

Turnover 0 (40) lots of 20 tonnes.

FREIGHT – LCE			$10/index point	
	Close	Previous	High/Low	
Aug	1315	1310	1315	1310
Sep	1338	1338	1340	
Oct	1393	1388	1390	
BFI	1337	1339		

Turnover 22 (92)

GRAINS – LCE			£/tonne	
Wheat	Close	Previous	High/Low	
Sep	105.55	105.65	105.25	105.00
Nov	106.60	107.05	106.50	106.00
Jan	108.45	109.05	108.25	108.05
Mar	110.50	110.90	110.40	110.10
May	112.40	112.95	112.40	112.25
Barley	Close	Previous	High/Low	
Sep	100.60	101.40	100.70	
Nov	102.85	103.40	102.90	102.50
Jan	105.40		105.40	105.25
Mar	107.15		107.30	107.00

Turnover: Wheat 361 (423), Barley 132 (52).
Turnover lots of 100 Tonnes.

PIGS – LCE			(Cash Settlement) p/kg	
	Close	Previous	High/Low	
Aug	98.8	100.7	101.0	100.0
Sep	97.8		98.0	
Oct	99.0		101.0	100.0
Nov	102.3		102.5	
Jan	103.0		115.0	
Feb	102.3	102.3	102.0	

Turnover 38 (8) lots of 3,250 kg

LONDON METAL EXCHANGE			(Prices supplied by Amalgamated Metal Trading)			
	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 46,525 lots
Cash	1207.5-8.5	1196-6.5	1199/1197.5	1197.5-8.0		
3 months	1230-1	1218.5-9.0	1238.5/1220	1220.5-1.0	1236-7	238,321 lots
Copper, Grade A ($ per tonne)						Total daily turnover 59,238 lots
Cash	1960-1	1971-2	1966/1965.5	1965-5.5		
3 months	1960-1	1987-7.5	1970/1956	1954-4.5	1962-3	222,056 lots
Lead ($ per tonne)						Total daily turnover 4,725 lots
Cash	390-1	391.5-2.5	391/390	388.5-90.5		
3 months	403.5-4.0	404.5-5.0	406/403.5	403-3.5	404-5	23,908 lots
Nickel ($ per tonne)						Total daily turnover 4,833 lots
Cash	4915-25	4883-93	4865	4860-5		
3 months	4970-80	4935-45	4975/4905	4945-50	4965-70	46,367 lots
Tin ($ per tonne)						Total daily turnover 1,893 lots
Cash	4840-50	4835-40		4829-31		
3 months	4895-900	4885-90	4900/4860	4880-1	4880-90	10,770 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 9,374 lots
Cash	925-6	925-6	918.5	918.5-9.0		
3 months	933-8	941-1.5	942/935.5	935-5.5	937-8	73,390 lots

LME Closing £/$ rate: SPOT: 1.4800 3 months: 1.4798 6 months: 1.4725 9 months: 1.4677

Copper and lead prices are now expressed in dollars per tonne

LONDON BULLION MARKET (Prices supplied by N M Rothschild)		
Gold (troy oz)	$ price	£ equivalent
Close	403.00-403.50	
Opening	407.00-407.60	
Morning fix	405.70	274.687
Afternoon fix	405.60	274.369
Day's high	409.50-410.00	
Day's low	402.50-403.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.64	6 months	2.66
2 months	2.64	12 months	2.69
3 months	2.64		

Silver fix	p/troy oz	US cts equiv
Spot	365.60	542.00
3 months	370.65	546.00
6 months	375.60	550.85
12 months	385.00	560.95

GOLD COINS		
	$ price	£ equivalent
Krugerrand	407.00-410.00	275.00-278.00
Maple leaf	414.85-417.45	-
New Sovereign	96.00-99.00	64.00-67.00

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Sep	Dec	Sep	Dec
1175	55	88	5	15
1200	36	71	11	23
1225	22	56	22	32
Copper (Grade A)	Calls		Puts	
1900	90	110	18	60
1950	58	84	35	83
2000	34	63	61	111
Coffee	Sep	Nov	Sep	Nov
950	123	142	1	14
1000	78	105	6	27
1050	43	74	21	46
Cocoa	Sep	Dec	Sep	Dec
725	39	67	6	19
750	22	52	14	29
775	11	38	28	40
Brent Crude	Sep	Oct	Sep	Oct
1700	13	45	51	-
1750	4	27	-	-
1800	-	12	-	-

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Aug	405.9	407.0	408.0	402.4
Sep	406.9	408.0	407.3	407.0
Oct	408.1	409.2	411.5	404.3
Dec	410.2	411.3	414.0	406.8
Feb	412.3	413.4	415.7	409.0
Apr	411.3	415.8	418.5	411.3
Jun	416.5	417.5	415.8	413.9
Aug	418.7	413.7	0	0
Oct	420.9	421.8	0	0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Oct	423.1	418.9	423.5	416.0
Jan	424.0	418.9	424.0	418.0
Apr	425.0	420.9	423.5	419.0
Jul	425.8	421.7	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Aug	544.3	539.2	540.0	534.0
Sep	545.8	540.8	547.0	532.0
Oct	547.3	523.5	547.0	547.0
Dec	551.3	546.4	553.0	537.0
Jan	551.9	547.0	0	0
Mar	556.9	552.0	556.5	543.0
May	561.4	556.2	555.0	551.0
Jul	564.8	559.9	565.0	554.5
Sep	568.9	564.0	581.5	581.5
Dec	574.9	570.0	572.0	584.5

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Aug	87.05	87.95	87.50	86.60
Sep	87.50	88.30	88.30	86.90
Oct	87.55	88.30	87.80	87.30
Nov	87.60	88.30	87.80	87.40
Dec	87.65	88.30	88.25	87.20
Jan	87.75	88.35	0	0
Feb	87.85	88.40	0	0
Mar	88.00	88.50	88.50	87.60
Apr	88.10	88.60	0	0
May	88.20	88.65	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Sep	17.99	17.88	18.04	17.83
Oct	18.26	18.16	18.30	17.88
Nov	18.45	18.34	18.46	18.18
Dec	18.59	18.46	18.61	18.31
Jan	18.66	18.56	18.66	18.46
Feb	18.73	18.67	18.73	18.59
Mar	18.77	18.75	18.77	18.64
Apr	18.88	18.82	18.88	18.85
May	18.93	18.89	18.93	18.93
Jun	19.05	18.96	19.05	18.87

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Sep	51.40	50.81	51.55	50.46
Oct	52.50	51.93	52.60	51.65
Nov	53.55	53.00	53.60	52.75
Dec	54.80	54.07	54.85	53.85
Jan	55.15	54.77	55.20	54.60
Feb	55.90	55.02	55.50	55.00
Mar	54.55	54.22	54.85	54.45
Apr	53.50	53.22	53.25	53.25
May	52.50	52.37	52.50	52.50
Jun	52.00	51.92	0	0

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Sep	989	969	990	959
Dec	1000	979	1000	978
Mar	1032	1011	1035	1011
May	1050	1032	1050	1034
Jul	1070	1052	0	0
Sep	1090	1072	0	0
Dec	1115	1095	0	0
Mar	1134	1116	1118	1118
May	1152	1134	0	0
Jul	1125	0	0	0

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Sep	77.40	76.56	78.70	76.95
Dec	79.95	79.05	81.15	79.00
Mar	82.20	81.15	83.25	82.00
May	83.55	82.60	84.25	83.50
Jul	84.95	84.00	85.80	85.00
Sep	86.35	85.40	86.60	86.50
Dec	89.05	88.15	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Oct	9.56	9.36	9.56	9.37
Mar	9.85	9.66	9.86	9.67
May	9.89	9.76	9.90	9.76
Jul	9.95	9.81	9.95	9.86
Oct	9.93	9.81	9.93	9.83

COTTON 50,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Oct	57.89	59.62	59.40	57.80
Dec	59.45	60.81	60.55	59.41
Mar	60.85	62.15	61.80	60.85
May	61.43	62.75	62.20	61.50
Jul	62.05	63.13	62.85	62.35
Oct	60.10	60.80	0	0
Dec	60.25	61.65	61.50	60.60

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Sep	121.05	117.50	121.40	118.20
Nov	124.20	120.70	124.60	121.00
Jan	126.05	122.75	126.25	123.25
Mar	127.50	124.05	127.50	124.65
May	127.90	126.25	127.90	126.25
Jul	128.30	126.75	128.25	128.25
Sep	126.30	124.95	0	0
Nov	126.30	124.95	0	0
Jan	126.30	0	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)			
Jul.31	Jul.30	mnth ago	yr ago
1649.6	1649.1	1660.4	1641.7

DOW JONES (Base: Dec. 31 1974 = 100)				
	Jul.30	Jul.29	mnth ago	yr ago
Spot	124.88	124.16	120.74	116.87
Futures	131.13	130.40	120.95	117.58

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Aug	704/4	695/4	705/4	699/0
Sep	705/4	698/4	708/4	697/4
Nov	708/4	698/0	707/4	699/2
Jan	708/6	690/4	710/0	[illegible]
Mar	711/0	693/0	711/0	694/0
May	710/4	694/0	711/0	694/0
Jul	711/0	693/0	711/0	694/0

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Aug	24.17	23.21	24.17	23.25
Sep	24.27	23.34	24.30	23.35
Oct	24.42	23.49	24.42	23.55
Dec	24.64	23.71	24.67	23.75
Jan	24.73	23.80	24.73	23.97
Mar	24.85	23.95	[illegible]	24.15
May	24.85	24.02	24.85	24.55
Jul	24.84	23.96	24.84	24.40

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Aug	230.7	226.8	231.2	225.5
Sep	227.5	222.4	227.5	222.0
Oct	225.1	220.1	225.6	220.2
Dec	224.2	219.3	225.3	219.6
Jan	222.6	218.5	223.5	218.5
Mar	221.0	217.3	222.1	218.0
May	219.2	216.5	220.0	216.5
Jul	216.2	214.0	216.5	216.0

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Sep	240/0	235/6	240/4	235/0
Dec	246/6	241/6	247/0	244/0
Mar	253/6	249/2	254/4	[illegible]
May	258/4	254/0	259/0	[illegible]
Jul	260/4	255/6	261/0	258/0

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Sep	307/6	304/0	310/0	305/0
Dec	317/0	312/4	318/4	314/4
Mar	310/2	315/2	322/0	316/0
May	[illegible]	311/6	[illegible]	314/0
Jul	303/0	308/2	305/4	302/0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Aug	75.475	75.850	76.225	75.460
Oct	74.625	75.200	75.350	74.600
Dec	75.075	75.275	75.750	75.025
Feb	75.525	75.850	75.850	75.475
Apr	76.575	76.650	77.050	76.550
Jun	73.350	73.425	74.050	73.300

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Aug	49.825	48.925	49.750	48.850
Oct	46.250	45.725	46.700	45.600
Dec	46.650	[illegible]	47.075	46.500
Feb	46.400	46.250	46.600	46.200
Apr	45.160	44.850	45.375	45.080
Jun	50.000	49.750	50.100	49.900
Jul	48.900	48.675	49.075	[illegible]

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Aug	47.150	[illegible]	47.650	46.200
Feb	53.700	51.775	53.775	52.650
Mar	53.050	[illegible]	[illegible]	[illegible]
May	54.500	52.600	54.575	53.450
Jul	54.000	52.325	54.200	0

LONDON STOCK EXCHANGE

Footsie challenges its closing peak

By Terry Byland,
UK Stock Market Editor

INVESTORS in the UK stock market continued yesterday to take a highly optimistic view of the implications for European and British interest rates from the dramatic developments in the ERM network. At the day's peak the FT-SE 100 Index was within a few points of its previous closing high, and overseas buyers were identified in both equities and stock index futures.

The first day of the new equity trading account opened on a confident note. There was slight disappointment, however, that the ERM was not "finally laid to rest" at the weekend, as one dealer put it. Share gains were almost halved in the second half of the session when the buyers withdrew from the futures market and Wall Street made a slow start, showing a fall of 12 points on the Dow Average in UK trading hours. Equities also took note of a less aggressive performance in UK government bonds.

The final reading left the FT-SE 100 at 2,941.7 for a net gain of 15.2 points. At midsession the Footsie touched 2,954.5, within 3 points of the closing high reached on March 8, although still some way short of a trading peak of 2,980.9, also in March.

Although several securities houses upgraded forecasts for the UK market, it was clear at yesterday's morning strategy meetings that many houses were still wrestling with the implications of the new global investment scenario posed by the ERM currency developments.

The broad view was that interest rate cuts in Europe will open the way for a cut in UK base rates and also, by rejuvenating other continental European economies, give a boost to Britain's own economic recovery. Consequently, there were buyers both for stocks with interests or markets in France or elsewhere in Europe, but also for domestic retail or consumer stocks which would benefit quickly from a further reduction in UK base rates.

While a cut in base rates has long been foreshadowed in the stock market, the latest ERM developments strengthen the chances that the move will come soon. "The best news of all is that lower UK interest rates can be sustained . . . We forecast base rates still at 4 per cent at the end of 1994," said Mr Roger Bootle at Midland Bank.

At Strauss Turnbull, Mr Ian Harnett sees base rates at 5 per cent until the year-end. Strauss yesterday raised its year-end Footsie forecast to 3,250; Mr Harnett believes that dollar stocks will join in the upswing as lower interest rates in Europe help the US currency.

Mr Nick Knight, the Nomura analysts regarded as the most bullish of UK equity strategists, has reaffirmed his 3,500 year-end forecast, stressing that "The market to buy is the UK". He suspects that interest rate cuts may have been well discounted in the French market.

There was some disappointment in London, however, that equity trading volume was restrained – the Seaq total of 697.9m shares compared with 763.5m on Friday, and traders warned of profit-taking pressure. Some analysts believe that if French rate cuts are delayed, then London could be vulnerable to further selling. But retail, or customer, business in UK equities has risen sharply, returning a worth of £1.72bn on Friday and a similar figure on Thursday.

TRADING VOLUME IN MAJOR STOCKS

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

*First Dealings:		
Jul 19	Aug 2	Aug 16
Option Declarations:		
Jul 29	Aug 12	Sep 2
Last Dealings:		
Jul 30	Aug 13	Sep 3
Account Day:		
Aug 9	Aug 23	Sep 13

*New time dealings may take place from 8.30am two business days earlier.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2941.7 +15.2	3335.3 +28.8	1457.25 +8.49

Alert on overseas interests

HOPES OF an early cut in French interest rates prompted institutional investors to seek out stocks with French exposure yesterday, inspiring some smart share price rises. Publishing group Aegis, which earns a third of its £2bn revenue in France, saw its shares climb 5¼ to 36½p. Kingfisher, owner of the Darty chain of electrical shops, advanced 11 to 645p. NatWest Securities and Strauss Turnbull were reported positive. Marks and Spencer added 9 at 363p.

Among drinks stocks, Guinness rose 8 to 486p. The company has a 24.5 per cent cross-holding agreement with LVMH, the French luxury goods group, which last week issued a profits warning. A marketing agreement with Remy saw Highland Distilleries gain 6 at 328p. Elsewhere, MB-Caradon put on 6 at 299p.

Conversely, stocks with German exposure generally suffered, the view being taken that rates will be slower to come down at the Bundesbank. Worst hit were the building stocks Redland and RMC, both of which saw their shares marked back. Carr Kitcat & Aitken was one house advising a "sell" on the back of the large proportion of profits – around 67 per cent and 61 per cent respectively – each company takes out of Germany. RMC retreated 12 to 793p and Redland 10 to 505p.

Abbey strong

Abbey National saw its share price move higher in the face of disappointing results as the market focused on a possible cut in UK interest rates following the changes to the European exchange rate mechanism.

The argument is that if ERM members cut rates the UK will have to follow suit to remain competitive. Building societies will be able to lower their rates to savers but leave their mortgage rates steady, thus improving profit margins.

Mr John Wriglesworth, building societies analyst with UBS, says base rates could fall by one percentage point but Abbey will only cut its lending rate by a quarter of a point.

However, he argues that this would only give a short-term boost to a group with long-term problems and he recommends selling into strength.

Abbey came in with profits of only £301m against a market consensus of £310 after heavy provisions. The share price was 14 ahead at the day's best and closed 9 up at 392p after very high turnover of more than 12m shares.

Glaxo trembles

The prospect of Glaxo's forthcoming patent tussle was highlighted in the Sunday press and sent the pharmaceutical group's shares down 13½ to 534p.

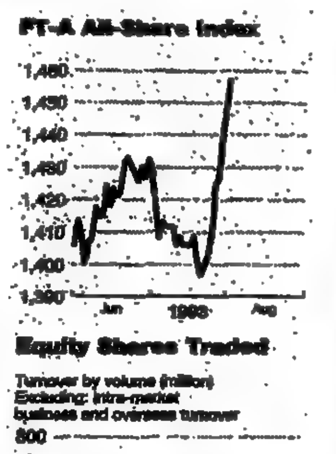
The court case with drugs group Novopharm over the patent for Glaxo's headline anti-ulcer drug Zantac starts next Monday. If Glaxo loses the case generic or unbranded versions of Zantac could be available in the US as early as 1995, eating into the earnings of a product that represents some two thirds of Glaxo's profits.

Selling in London continued in New York and the concerns gave dealers a chance to take profits elsewhere in the sector. Wellcome suffered on criticism of its latest Aids drug research and fell 4 to 683p while SmithKline Beecham was given a push by Nomura's pharmaceuticals team which argued that the stock had outperformed the sector and it was time to take profits. SmithKline "A" dipped 3 to 441p.

Vodafone advances

Mobile telecoms group Vodafone was the best performing stock in the sector as it revealed new connections for July and also announced a new overseas venture. The shares jumped 14 to 485p in good turnover of 5.3m. Market whispers that the group was being eyed by AT&T, the US company, were dismissed by analysts. Last week, similar gossip had earmarked Cable and Wireless for the same treatment. C&W shares climbed 5 to 816p.

Vodafone said gross new connections for July totalled 31,724, taking the overall total to neary 1m users. The company also said it had set up a joint venture with Fiji Posts and Telecoms, the state-owned operator, to build and operate a cellular telephone network.



A further slide in the price of Brent crude held back some oil stocks, with Enterprise slipping 4 to 450p and Lasmo softened 2 to 134p.

The fallout in Lloyds Bank shares continued yesterday as a number of analysts lowered forecasts following a disappointing meeting with the company.

Credit Lyonnais Laing cut its 1994 forecast by 20 per cent to £1bn and NatWest Securities cut its more gloomy estimate of £960m to £900m. NatWest also cut its figure for the year to 1995 by £500m to £1bn. Lloyds fell 11¼ to 539pxd.

The prospect of further stimulus to any consumer recovery saw food retail and stores sectors record two of the best performances of the session. Among food stocks, Argyll added 9 to 328p, Iceland Group 4 to 220p, Kwik Save 18 to 633p, J Sainsbury 12 to 487p and Tesco 6 to 213½p.

Food manufacturing stocks also caught the positive mood, among which Unigate put on 6 to 370p, United Biscuits 6 to 380p and Booker 10 to 411p.

In stores, Boots moved forward 8 to 457p, GUS 18 to 2000p and Next 5¼ to 191¼p.

An initial strong burst in the leisure sector on interest rate hopes faded late in the day, but most stocks stayed in positive territory. Main beneficiaries were the tour operators, where Airtours rose 12 to 376p and Owners Abroad 5 to 67p. Forte lost 3 to 214p as dealers spoke of a line of stock overhanging, while a big buyer helped Friendly Hotel add 8 at 210p.

There was no further news over the identity of potential suitors for Spring Ram, the troubled bathroom products group, but the weekend speculation, confirmed by the company yesterday, sent the shares leaping forward. They closed 15 ahead at 69p. The company emphasised that negotiations were of a "preliminary nature".

Yield considerations continued to buoy up selected electricity and water stocks. Among the Recs, Eastern gained 15 to 516p, Manweb 9 to 557p and Southern 14 to 524p. In waters, Anglian added 8 to 502p and South West 14 to 531p.

Motor group BBA rose 9 to 176p despite a cautious annual statement as the market concentrated on a jump in profits to £50.3m.

Under the limelight in the textile sector was William Baird, which jumped up 7 to 255 towards the close of a somewhat slow morning session, on news of disposal of part of its engineering business. The group's refocus on its core businesses has led BZW to change its recommendation from hold to buy. According to Ms Julia Blake at BZW, the stock has been oversold and is still undervalued.

Another active stock was Coats Viyella, a main supplier of fabrics and soft furnishings to Marks and Spencer. Its shares moved up 6 from 239p before settling down at 244p in a total volume of 2.5m shares.

Courtaulds Textiles added 13 to 558p on a strong recovery after a period of weakness while those of clothing manufacturer S.R. Gent were pushed up 8 to 68p by overseas investors.

Ms Blake said the market was short of stock and that buying interest had built up after some weeks of market depression.

In the publishing sector, United Newspapers, which has a high yield of over 5 per cent, gained 12 to 544p in a volume of 281,000 on market expectations of overall interest rate cuts throughout Europe, where half of the group's advertising revenues are generated.

Regional press group Home Counties Newspapers bounced 15 to 119p after recent weakness.

Property stocks were perky, with good gains being seen across the board. British Land surged 9 to 360p and Land Securities 6 to 634p, with Smith New Court said to be recommending the stocks. Elsewhere, Great Portland added 5½ to 193p, and Hammerson 4 to 331p.

MARKET REPORTERS:
Peter John,
Christopher Price,
Zhang Tingting.

■ Other statistics, Page 18

NEW HIGHS AND LOWS FOR 1993

... A. Macfarlane, PROP (9) Barlows, British Land, Deejan, Gt Portland 9½pc Cv '02, Helical Bar, Land Secs., Shaftesbury, Trafford Park, STORES (11) Argos, Essex Furn., Fine Art Devlpts., French Cnctns., GUS, Do A, Kingfisher, Do 8½pc Cv '00, Kleeneze, Next, Partridge Fine Art, TELE NETWORKS (3) Cable & Wire 7pc Cv. '08, Vodafone, TEXTS (2) Gent (SR), Jacques Vert, TRANSPORT (6) Brit. Airways, Do 9½pc Cv., Mersey Docks, Ocean Grp., P & O, Do 5½pc Pf., SOUTH AFRICANS (1) SA Brews., PLANTATIONS (1) Bertam, MINES (24).
NEW LOWS (28).
AMERICANS (2) Bethlehem Steel, Data General, BUSINESS SERVS (4) Chiltern Cap., FEA, Reliance Sec., Sherwood Cmptr., CHEMS (1) Anglo Utd., CONTG & CONSTRCN (2) Andrews Sykes, McLaughlin & Harvey, ELECTRONICS (2) Prestwick 7¼pc Pf., Radius, ENG GEN (1) Wellman, HEALTH & HSEHOLD (2) Bet. Bio-Technology, Unichem, HOTELS & LEIS (1) First Lse., INV TRUSTS (3) Contra-Cyclical Inc., Derby Inc., Murray Split Cap., MISC (7) Allwoods, OIL & GAS (2) Arcon, Ex. Co Louisiana, Midland & Scot., OTHER FINCL (1) Cambridge, OTHER INDLS (1) AAF, STORES (1) Lloyds Chems.

FINANCIAL TIMES EQUITY INDICES

	Aug 2	July 30	July 29	July 28	July 27	Year ago	*High	*Low
Ordinary share	2329.0	2317.5	2307.5	2277.7	2277.3	1914.8	2329.0	2124.7
Ord. div. yield	3.97	3.98	4.00	4.05	4.05	5.08	4.52	3.92
Earning yld % full	4.73	4.74	4.76	4.82	4.82	7.22	5.36	4.73
P/E ratio net	27.08	27.00	26.89	26.54	26.54	17.50	27.08	19.40
P/E ratio nil	25.02	24.94	24.84	24.52	24.52	18.26	25.02	18.14
Gold Mines	247.3	248.2	235.8	228.8	225.5	89.3	249.2	60.0

*for 1993. Ordinary share index since compilation: high 2329.0 2/8/93 - low 49.4 26/6/40
Gold Mines index since compilation: high 734.7 15/2/83 - low 43.5 26/10/71
Base Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2312.7	2325.3	2329.6	2338.0	2337.9	2337.8	2338.1	2334.4	2331.2	2339.2	2312.7

Volume	Aug 2	July 30	July 29	July 28	July 27	Year ago
SEAQ Bargains	37,700	41,728	33,145	32,331	31,167	16,454
Equity Turnover(£m)†	-	1725.0	1707.5	1447.8	1569.0	704.1
Equity Bargains†	-	[illegible]	[illegible]	30,273	32,672	18,510
Shares traded (mil)†	-	677.8	639.7	594.8	617.6	385.9

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

LONDON SHARE SERVICE

BRITISH FUNDS

Continued on next page

EQUITY FUTURES AND OPTIONS TRADING

INTEREST in the derivatives markets was enlivened by heavy buying from a big overseas investor yesterday, the subsequent squeeze sending Footsie futures up sharply, *writes Peter John.*

Overseas investors have been shifting funds into the UK via sterling and government bonds as they look for a safe haven for currencies that also offer a good return.

However, if falling interest rates in Europe prompt a cut in the UK, the subsequent fall in bond yields will make the rate of return on the stock market more attractive.

The contract on the FT-SE 100 for September delivery shot up to a strong premium to the cash market in the morning and was trading 24 points higher at one stage. This compares with a fair value, the premium that takes into account dividends and carrying costs, of 4 points.

The effect of the buying was accentuated by a severe shortage of stock after a week of heavy investing which has pushed the futures and underlying cash market close to record highs in the past week.

However, when the overseas buying finished, some of the steam went out of the rally and the spread between futures and cash narrowed. The premium had declined to 15 by the official close, with some 11,000 contracts dealt.

The traded options market saw 32,000 lots transacted, with National Power the most actively traded stock option.

CROSSWORD

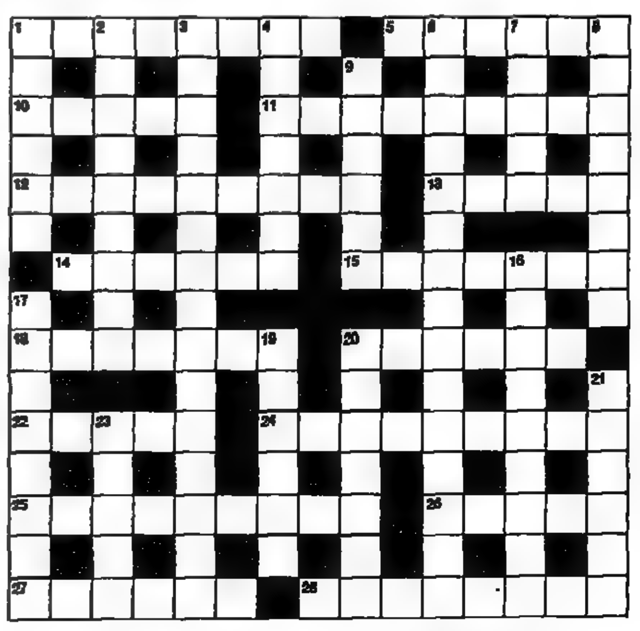
No.8,218 Set by HIGHLANDER

ACROSS

1 Graduate to Beethoven's first chorale arrangement (8)
5 Design it expressly to contain fire (6)
10 Daughter broke back on flag (5)
11 Verbally indicate disapproval of hardwoods in small shops (9)
12 Primitive resistance wire with aluminium terminal (9)
13 Misleading statement say, about feudal lord in Belgium (5)
14 Ship wrapped in metallic sheet is a relic (6)
15 Additional provision for fish: one hundred to one fifty (7)
18 Idea caught on at one time prior to bodily exercise (7)
20 Crawling troops follow sergeant major (6)
22 Educated person or one from New Zealand (5)
24 Bring back control by body politic (9)
25 The original gnomes' signature tune (5,4)
26 Blast love and enthusiasm! (5)
27 Rewards agent say with another order (6)
28 Keeps up pressure on eccentric sisters (8)

DOWN

1 Burrowing animal goes down with serious bug, losing tail (6)
2 Stop working near feathers (5,4)
3 High-speed transmission shows state of the French uniforms (7,8)
4 Examination about section in circular (7)
6 Insistently questioned S Africa over procedures with cooked meat items (7,8)
7 Being employed in other words to conceal rising sun (2,3)
8 Set off in advance without making in one direction (8)
9 Open bar with licensees' leader in charge (6)
16 Comes without directions and goes with direction indicators (9)
17 Armistice broken and English thrown out by the sword (8)
19 Turn to unsweetened type of wine with fish (6)
20 Short haircut seen on beaches (7)
21 Arrest journalist climbing into warehouses (6)
23 Having advantage over person appearing for trial (3-2)



JOTTER PAD

Solution 8,217

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or −	1993 high	low	Mkt Cap£m	Yld Gr's
Abbott Labs		16⅞xd	—	20⅛	15⅞	14,123	2.6
Allegheny & W	♥	624p	—	652p	399p	324.3	1.0
Amdahl		356p	+1	591p	302¼p	388.7	0.9
Amer Cyanamid		35⅝	—	38⅝	31¼	3,211	2.9
Amer Express		22⅛xd	−⅛	22¾	14⅞	10,617	2.9
Amer T & T		42⅝xd	−⅛	43¼	33⅛	57,019	1.9
Ameritech		55	+⅛	55	46	24,081	4.3
BankAmerica		30⅛xd	−⅛	33⅛	27⅛	10,479	2.9
Bankers NY		52⅛xd	−⅛	62⅝	42⅝	4,208	3.7
Bell Atlantic		40¼	−⅛	40⅝	32¼	[illegible]	[illegible]
BellSouth		39¼	—	39⅞	32⅞	19,389	4.5
Bethlehem Steel	♥	9⅞xd	−⅛	13¾	9⅛	888.1	–
Bowater		1370pxd	−1	1682p	1287p	498.4	1.8
CPC		27⅝xd	—	34⅝	28	4,184	2.9
California Engy		1232p	—	1478p	1086p	224.3	–
Chase Manhattan		21⅛xd	+⅛	24½	17⅛	3,346	3.6
Chrysler		29⅝xd	+⅛	32⅛	21⅛	8,875	1.3
Citicorp		22⅝xd	—	22⅝	13⅛	8,179	–
Colgate-Palm		34⅛xd	+⅛	45⅝	32⅛	6,548	2.6
Cont'l Bank		1615p	−3	1677p	1278p	1,632	2.3
Dana		37⅝xd	+⅛	37⅝	29⅛	1,716	2.7
Data General		557p	−6	951p	557p	158.5	–
Decora Inds	♥	120p	—	148p	109p	–	–
Dun & Brad		40	—	42⅝	37⅛	7,129	3.9
Eaton	h	31	+⅛	31⅛	25⅛	2,156	2.2
Echlin		18⅝xd	+⅛	20½	15⅛	1,124	2.3
FPL		26⅛xd	−⅛	27⅞	23¼	4,903	5.9
Ford Motor		35⅝xd	−⅛	38⅛	28⅛	17,389	1.9
Gen Elect		66⅛xd	+6⅛	67⅛	57⅛	58,847	2.4
General Host	♥	550p	−6	723p	513p	–	4.1
Gillette		34⅛xd	+⅛	42⅝	31⅛	7,677	1.5
Hasbro		20⅛	—	20⅛	20⅛	1,819	0.7
Honeywell		24xd	+⅛	26½	20⅛	3,280	2.3
Houston Inds		31⅛	−⅛	33⅛	28¼	4,031	6.1
Ingersoll-Rand		22⅛xd	−⅛	25	19⅝	2,331	2.0
Lockheed		45⅛	+⅛	45⅛	35⅛	2,794	2.9
Lowe's	h	2545p	−1	2661p	1573p	1,858	0.7
Maxwy Technology		172p	—	209p	127p	–	–
Merrill Lynch		58⅛xd	−⅛	59¼	37	8,043	1.3
Morgan (JP)		49⅛xd	—	49⅛	39⅛	9,412	3.1
Morris (Philip)		31⅞xd	−⅛	52⅛	28⅛	27,933	5.2
NYNEX		60⅛	+⅛	64⅛	52¼	12,573	4.8
Pall		11⅛	—	15	11	1,302	1.8
Pennzoil		44⅛xd	+⅛	44⅛	31⅛	1,800	4.3
Quaker Oats		43⅛xd	+⅛	50⅛	39⅛	3,141	2.8
Quester		169p	+1	228p	16½p	17.7	–
Rockwell		22⅛xd	−⅛	22⅛	18⅛	4,921	2.8
Rep NY		34⅛xd	−⅛	37⅛	29⅛	1,795	2.0
Sears, Roebuck		33⅛	−⅛	34	18⅛	8,772	3.0
Sthwestern Bell	h	27⅛	—	27⅛	23⅛	16,418	3.5
Sun Co		18¼xd	−⅛	21⅛	14¼	1,839	6.2
Tenneco		33½xd	+⅛	34⅛	25½	5,853	3.0
Texaco		42½xd	—	44¼	37⅛	10,998	4.7
Time Warner	h	25⅞xd	−⅛	28⅛	18⅛	9,613	0.7
Unilab	♥	488p	—	488p	358p	213.1	–
US West		31⅛	—	31⅛	24¼	12,169	4.2
Varity		2265p	−1	2267p	1686p	685.2	–
WMX Technologies		28⅛xd	−⅛	27⅛	19⅛	10,146	1.8
Whirlpool		4245pxd	+64	4245p	2824p	2,967	1.3
Woolworth	♥	16⅛	−⅛	21½	16½	2,204	4.2

CANADIANS

	Notes	Price £	+ or −	1993 high	low	Mkt Cap£m	Yld Gr's
Abbot Energy	♥	2p	—	2p	2p	–	–
Amer Barrick		1889p	+18	1889p	890½p	6,365	0.4
Bk Montreal	h	14¼	+⅛	14¼	11⅛	3,535	3.9
Bk Nova Scot		1415p	+23	1428p	1111p	2,937	4.0
BC Gas	♥	847p	—	851p	723p	–	3.6
BCE		22½	−⅛	28⅛	20⅛	6,891	6.9
Brascan	♥	681p	+8	721p	454p	569.9	7.9
Breakwater	♥	11⅞p	−⅛	16½p	10p	7.55	–
Can Imp Bk		1725p	+3	1749p	1228p	3,427	3.6
Can Pacific		1033p	−1	1111p	810p	[illegible]	[illegible]
4pc Deb		43	—	43	38	20.1	9.6
Derlan	♥	232p	+6	281p	184p	–	8.0
Echo Bay	♥	861p	−11	972p	288p	[illegible]	0.5
Gulf Can	♥	228pxd	−10	304p	147p	358.5	–
Hawker Sid	♥	11⅛	−⅛	13	10⅛	88.3	4.6
Hudson's Bay	♥	1797p	+5	1808p	1495p	935.7	2.2
Imperial Oil	♥	23½xd	—	28½	20⅛	4,555	3.8
Inco		14⅛	+⅛	17⅛	13⅛	1,547	1.8
Nova Corp Alberta		488pxd	+1	527p	432p	1,482	2.4
Rio Algom	♥	945p	—	1096p	330p	413.3	3.2
Royal Bk Can		1455p	−2	1492p	1125p	4,567	4.0
TVX Gold	♥	369p	−12	381p	129½p	494.6	–
Toronto-Dom		1007p	−4	1016p	753p	3,032	3.8
Trans Can Pipe	♥	1119p	+29	1119p	847p	1,880	4.7

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

MERCHANT BANKS

OIL & GAS - Cont.

PACKAGING, PAPER & PRINTING - Cont.

STORES - Cont.

MINES - Cont.

METALS & METAL FORMING

TELEPHONE NETWORKS

TEXTILES

PROPERTY

MISCELLANEOUS

INVESTMENT COMPANIES

OTHER FINANCIAL

TRANSPORT

MEDIA

OTHER INDUSTRIALS

WATER

MOTORS

STORES

SOUTH AFRICANS

PLANTATIONS

MINES

PACKAGING, PAPER & PRINTING

OIL & GAS

	Price	+or-	1993 high	low	Mkt CapCm	Yld Gr's
Glencar Expl ‡	11		12	6	2.03	–
Greenwich Res	17½	–½	22½	5	13.8	–
Hemlo Gold C$	23	+¼	28	13½	774.1	1.2
Ivernia West ‡	43		57	31	21.6	–
Kalls Mins ‡	12	–1	13	6	0.29	–
Kenmare	8½	–½	13½	6	8.51	–
Malinga Res	12	+1	28½	10	1.32	–
Navan Res ‡	93	+3	100	25	16.8	–
8pc Ln Notes	86½		94¼	25	19.6	–
Oryx Gold	78½		78½	47	–	–
‡‡Ovoca Res ‡	7½	+½	7½	3½	0.82	–
RTZ	687	+15	708	607	7,096	3.8

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ)
- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
x Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings
M Yield based on prospectus or other official estimates for 1993-94
N Figures based on IIMR 'Headline Earnings' draft proposals.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed
W Pro forma figures
Z Dividend yield to date

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣ Ring 081 643 7181 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT3012. [If calling from outside UK, dial +44 81 643 7181 or fax +44 81 770 3522] Reports will be sent the next working day, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♠) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Provident Mutual Life Assc. Assn. - Contd.

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 071-405 9222

Prudential Corporate Pension Funds
30 King's Road, Reading RG1 3AH 0734 494352

Scottish Amicable - Contd.

Scottish Equitable Life Assce. Soc.
28 St Andrew Sq, Edinburgh 031-556 9101

Scottish Life Investments
19 St Andrew Square, Edinburgh 031-225 2211

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

IRELAND (REGULATED)(**)

OFFSHORE INSURANCES

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

FT MANAGED FUNDS SERVICE

Lloyds Bank (CI) U/T Mgrs.

Midland Bank Fund Managers (Jersey) Ltd

Prudential Fund Managers (Jersey) Ltd

Royal Trust Jsy Fd Mgmt Ltd (1400)F

Standard Bank Fund Mgmt (Jersey) Ltd

TSB Trust Funds (CI)

JERSEY (REGULATED)(**)

Barclays Intl Funds

Citibank (CI) Ltd

Fleming Group

Guinness Flight

Lloyds Bank Trust Co (CI) Mngrs

Perpetual UT Mngrs (Jersey) Ltd

The Portugal Fund Limited

Royal Trust Intl Fd Mngt Ltd

Schroder Mngt Services (Jersey) Ltd

TSB Trust Funds (CI)

Tyndall International (Jersey) Ltd

Warburg Asset Management Jersey Ltd

LUXEMBOURG (SIB RECOGNISED)

Abtrust Fund Mngrs Luxembourg SA

Bank Von Ernst & Cie AG

Banque Scandinave a Luxembourg SA

Banque Scandinave a Luxembourg SA - Contd.

Barclays Diversified Portfolio

Barclays Inv Funds (Luxembourg)

Commercial Union Luxembourg SA

Fidelity Funds

INVESCO International Limited

Kleinwort Benson Japanese Warrant Fund

Kleinwort Benson Select Fund

Latin American Securities Ltd

Liberty ALL-STAR World Portfolio

Lloyds Bank Luxembourg

Midland Internatl Circuit Fund SICAV

Regent Global Fund

Schroder International Selection Fd

Scottish Equitable Intl Fund SICAV

Templeton Global Strategy SICAV

Warburg Asset Mngt Lux SA

LUXEMBOURG (REGULATED)(**)

Aetna International Umbrella Fund

Alliance Capital

Morgan Stanley Sicav

Citicorp Investment Mgmt (Luxembourg) SA

Clemente Korea Emerging Growth Fund

Credit Commercial de France

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse

Daiwa Japan Gem Fund

The Dragon Fund Sicav

H.C.M. HYPO Capital Mgt Luxembourg SA

International Bond Trust

Rosenberg Global Mngt Co SA

Rosenberg Management SA

Rosenberg US Japan Mngmt Co SA

Edmond de Rothschild Group

SOGTECH SA

Target International Ltd

Templeton Emerging Asia

Templeton Worldwide Investments

Tradeworld Bond Trust

Unico Financial Services SA Lux

World Trust Fund

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

ATSP Management Ltd

Abtrust Fund Mngrs (Guernsey) Ltd

Adig Investment

Alliance Capital

Alpha Fund Management Ltd

Barclay Eurobourse Fund Ltd

Baring International Group

China Investment Company

The China Invest & Development Fd Ltd

Citizens Investment Trust Mgt Co Ltd

Craig Drill Capital Ltd

Credit Lyonnais Rouse (Bermuda) Ltd

Crystal Corporation N.V.

Europa 1992

Fidelity Investments

Indosuez Asia Invest Services Ltd

The Japan Fund N.V.

Jardine Fleming Unit Trusts Ltd

Johnson Fry Securities Ltd

Lehman Brothers

Lloyd George Management

Merrill Lynch Asset Management

Pakistan Fund

Pequot International Fund Inc

Philippine Income Fund Inc

Portuguese Investment Fund Ltd

Putnam International Advisers Ltd

Guardian Group

Real Estate Strategies Ltd

Regent Fund Management Ltd

Rothschild Asset Management (CI)

Royal Trust Intl Money Market Fund

Sabre Futures Fund

Safra Republic Holding

Schroder Investment Management Limited

Schroder Japanese Warrant Fund

Schroders Asia Limited

Schroders Australia Ltd

Schroder (Switzerland)

Seligman Bermuda Funds

Shizuoka Investment Management

Taiwan Fund

Templeton Galbraith & Hansberger Ltd

The Thai Development Capital Fd

The Thai-Euro Fund Ltd

The Thai Prime Fund Limited

The Thailand Fund

The Thailand Growth Fund

The Thailand Intl Fund Ltd

Thornton Investment Management Ltd

Tyndall International (Bermuda) Ltd

The Vietnam Fund Limited

Winterthur

MANAGED FUNDS NOTES

FOREIGN EXCHANGES

Pressure on franc and krone

THE French franc and the Danish krone came under strong selling pressure yesterday after their bands in the European exchange rate mechanism had been widened to 15 per cent against the D-Mark and Dutch guilder, *writes James Blitz.*

The removal of their former ERM floors against the D-Mark encouraged dealers to push both currencies to levels at which they were undervalued on a trade weighted basis.

Both the franc and krone recovered at the end of a European session in which trading was mostly thin. But the rally in their currencies was mainly a result of the decision by both countries' central banks to keep monetary policy tight.

In France's case, the intervention rate was kept unchanged at 6.75 per cent, even though the franc's new floor of FFr3.8948 could easily permit another cut in rates. This meant that, although the franc fell as low as FFr3.55 to the D-Mark in the European morning, it later climbed back to a London close of FFr3.505.

Denmark took a more aggressive stance, maintaining its 1 month interest rates at 25 per cent. This allowed the Danish krone to come back to a London close of DKr4.0367 to the D-Mark after it had plunged as low as DKr4.1500 against the German currency.

Belgium actively tried to maintain its currency within its former bands, intervening to support the Belgian franc at BFr21.50 to the D-Mark.

The overwhelming feature of the market yesterday was the uncertainty of central banks over what action to take, now that the ERM has virtually collapsed. "There is a policy confusion over whether to go down the competitive devaluation route, or whether to stick close to the D-Mark," said Mr Robin Marshall, chief economist at Chase Manhattan Bank.

All European countries want economic growth to stimulate their economies. But, in France, the danger of competitive devaluation is that it could seriously embarrass the government of Mr Edouard Balladur, who was committed to the *franc fort* policy.

However, Mr George Soros, head of the Soros fund in New York which takes active positions in currencies, told the *Financial Times* that France could cut interest rate tomorrow without any further pressure on the franc.

For Belgium and Denmark, analysts see strong risks of disorderly devaluations that could impinge on their bond and equity markets – placing a burden on them to keep interest rates high. But, here again, Mr Soros felt that rates could be cut without long term depreciation.

Yesterday's appreciation of the D-Mark in Europe helped to push the dollar down 2¼ pfennigs to a close of DM1.7155. The dollar was also trading at a post-war low of Y104.05 in early US trading. Sterling closed down 3 pfennigs on the day at DM2.5550, amid speculation of a base rate cut in the UK.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Aug 2	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator‡
Dutch Guilder	2.19672	2.16841	-1.29	8.49	-
D-Mark	1.94964	1.92666	-1.18	8.37	-
Irish Punt	0.808628	0.803632	-0.62	7.77	4
Belgian Franc	40.2123	40.7481	1.33	3.74	-10
French Franc	6.53883	6.72984	2.92	2.13	-24
Portuguese Escudo	192.854	199.522	3.46	1.60	-23
Spanish Peseta	154.250	160.343	3.95	1.12	-35
Danish Krone	7.43679	7.81737	5.12	0.00	-38

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
‡ Indicative values only. Divergence indicators are based on 15% band limitations but do not show the 2.25% band between the Dutch Guilder and D-Mark.

£ IN NEW YORK

Aug 2	Latest	Previous Close
£ Spot	1.4880-1.4890	1.4815-1.4825
1 month	0.38-0.37pm	0.35-0.34pm
3 months	0.95-0.93pm	0.97-0.95pm
12 months	2.57-2.47pm	2.60-2.50pm

Forward premiums and discounts apply to the US dollar.

STERLING INDEX

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

POUND SPOT - FORWARD AGAINST THE POUND

Aug 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4755 - 1.4900	1.4880 - 1.4890	0.38-0.36cpm	2.98	0.95-0.92pm	2.51
Canada	1.9030 - 1.9274	1.9060 - 1.9090	0.38-0.30cpm	2.07	0.84-0.74pm	1.66

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr per 100: Peseta per 100.

FINANCIAL FUTURES AND OPTIONS

LONDON (LIFFE)

CHICAGO

PARIS

Strike	Calls September	Calls December	Calls March	Puts September	Puts December	Puts March
118	3.69	3.27	-	0.03	0.19	0.20
119	2.75	2.47	-	0.06	0.32	0.28
120	1.80	1.78	-	0.10	0.51	0.40
121	1.00	1.21	-	0.28	0.81	-
122	0.43	0.80	-	0.74	1.22	-
Open Int	146,466	86,093	19,986	196,898	49,425	12,986

Estimated volume 87,632 † Total Open Interest 463,981
† All Yield & Open interest figures are for the previous day.

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.4895	1.4858	1.4802	1.4735	1.4638

MONEY MARKETS

No instant rate cuts

European money markets were kept guessing yesterday as the major ERM central banks chose not to exercise their new freedom to cut interest rates, *writes Stephanie Flanders.*

By the end of the first day's trading, only Portugal had rushed to ease monetary monetary conditions, cutting its emergency lending rate to 13.0 per cent from 14.5 per cent. The Bank of France signalled early on that there would be no immediate official rate cut, leaving the key intervention rate at 6.75 per cent.

UK clearing bank base lending rate 6 per cent from January 26, 1993

At least some in the market must have been disappointed by the French central bank's show of restraint, because afternoon trading brought French franc futures down a little from their morning highs. The September Pibor contract closed in Paris at 94.09, still 37 basis points higher than Friday's close, but lower than the 94.48 level seen early on.

Analysts said to expect lower official rates in France in the near future, but possibly not as early as this week. "You would not have expected rate cuts today," said one London economist. "But what is the point of such a wide band of you're not going to lower rates quite substantially?"

Several observers now expect French discount rates to fall below 5 per cent over the next two or three months. French call money finished Monday down on the levels seen during the previous week's turbulence, at around 9¾ per cent on the bid side.

The Danish and Belgian central banks also chose not to cut interest rates. In the case of Denmark, the central bank offered a special four week liquidity pact at a fixed 25 per cent yield, and announced that the 14 day repo rate would remain fixed at last week's level of 11 per cent level.

However, one source said that the high Danish rate was unlikely to stay in place very long. "I expect the repo rate to fall. If not at Thursday's tender, then almost certainly by the end of next week," he said.

Sterling markets had a slightly less bearish flavour than during the latter part of last week. But on balance, traders still seemed to believe that the ERM re-vamp would mean speedier reductions in UK official rates. The September sterling contract lost 7 basis points to close at 94.38, but the implied expectation of 5.62 per cent three month money by the autumn remains significantly lower than a week ago.

FT LONDON INTERBANK FIXING

(11.00 a.m. Aug 2)	3 months US dollars		6 months US Dollars	
	bid 3⅛	offer 3¼	bid 3⅜	offer 3½

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK

Lunchtime		Treasury Bills and Bonds			
Prime rate	6	One month	3.00	Three year	4.48
Broker loan rate	5	Two month	3.01	Five year	5.21
Fed.funds	3⅛	Three month	3.14	Seven year	5.50
Fed.funds at intervention	3⅛	Six month	3.32	10-year	5.84
		One year	3.57	30-year	6.56
		Two year	4.18		

Aug 2	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	6.85-6.95	[illegible]	6.75-6.85	6.60-6.70	7.75
Paris	9⅞-10⅞	8.10-9.10	-	6.90-7.90		6.75
Zurich	4¾-5	4⅝-4¾	-	4 9/16-4 11/16	-	-
Amsterdam	7.00-7.12	[illegible]-7.03	-	6.80-6.88	-	-
Tokyo	3 7/32-3 9/32	3 5/32-3 7/32	-	-	-	-
Milan	9 15/16-10 1/16	9⅝	-	9 3/16-9½	-	-
Brussels	-	8⅜-8⅞	-	7½-8	-	-
Dublin	5¾-5⅞	6¼-6⅜	6 3/16-6 5/16	6 3/16-6 5/16	6⅛-6¼	-

LONDON MONEY RATES

Aug 2	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	6¼	6	6	5⅞	5¾	5 11/16
Interbank Bid	3	5¾	5⅞	5¾	5⅝	5 9/16
Sterling CDs	-	-	5⅞	5 11/16	5 13/16	5 9/16
Local Authority Deps.	5¾	5⅞	5 15/16	5¾	5 11/16	5⅝
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	5⅞	5⅞	-	-	-	-
Company Deposits	-	-	-	-	-	-
Finance House Deposits	-	-	6	5⅞	5¾	5 11/16
Treasury Bills (Buy)	-	-	5 11/16	5¾	5⅝	-
Bank Bills (Buy)	-	-	5 13/16	5⅝	5½	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	3.05	[illegible]	3.23	3.47
SDR Linked Dep. Offer	-	-	4 7/16	4 7/16	4⅜	4⅜
SDR Linked Dep. Bid	-	-	4 5/16	4 5/16	4¼	4¼
ECU Linked Dep. Offer	-	-	9	8 3/16	7 11/16	7⅛
ECU Linked Dep. Bid	-	-	8½	7 11/16	7 3/16	6⅝

Treasury Bills (sell); one-month 5⅝ per cent; three months 5 9/16 per cent; six months 5 7/16 per cent; Bank Bills (sell): one-month 5 11/16 per cent; three months 5 9/16 per cent. Treasury Bills; Average tender rate of discount 5.0916 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day July 30, 1993. Agreed rates for period Aug 25, 1993 to Sep 25, 1993 Schemes II & III: 7.26 p.c. Reference rate for period July 1, 1993 to July 30, 1993, Scheme IV&V: 6.009 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 6pc from August 1, 1993. Bank Deposit Rate for sums at 7 days notice 5⅛ p.c. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 2¼ p.c.; one-three months 5¼ p.c.; three-six months 5 p.c.; six-nine months 4¼ p.c.; nine-twelve months 4½ p.c.; Under £100,000 2¼ p.c. from Jan 27, 1993. Deposits withdrawn for cash 1½ p.c.

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	Mount Banking	6
Allied Trust Bank	6	Duncan Lawrie	6	NatWestminster	6
AIB Bank	6	Equatorial Bank plc	6	Nykredit Mortgage Bnk	6.5
●Henry Ansbacher	6	Exeter Bank Limited	7	●Rea Brothers	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Roxburghe Bank Ltd	6
Bank of Baroda	6	●Robert Fleming & Co	6	Royal Bk of Scotland	6
Banco Bilbao Vizcaya	6	Girobank	6	●Smith & Williamson Secs	6
Bank of Cyprus	6	●Guinness Mahon	6	Standard Chartered	6
Bank of Ireland	6	Habib Bank AG Zurich	6	TSB	6
Bank of India	6	●Hambros Bank	6	●United Bk of Kuwait	6
Bank of Scotland	6	Heritable & Gen Inv Bk	6	Unity Trust Bank Plc	6
Barclays Bank	6	●Hill Samuel	6	Western Trust	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Whiteaway Laidlaw	6
●Brown Shipley	6	Hongkong & Shanghai	6	Wimbledon & Sth West	7
CL Bank Nederland	6	Julian Hodge Bank	6	Yorkshire Bank	6
Citibank NA	6	●Leopold Joseph & Sons	6		
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6				

● Members of British Merchant Banking & Securities Houses Association

EARNINGS IN THE FT

Readers of the FT's London Share Service pages will have started to notice a capital N against the names of some companies.

The N symbol means that the version of the company's earnings used in the FT's statistical calculations now follows the "headline earnings" formula devised by a subcommittee of the Institute for Investment Management and Research (IIMR) and proposed in draft form (still subject to final review) in early March.

This formula represents a broad consensus on the "single number" that should be used for UK companies' earnings under the Accounting Standards Board's Financial Reporting Standard 3.

The IIMR headline earnings formula emphasises a company's actual activities during the reporting period, including those activities which have been with the company only for part of the period. Key features are:

- All trading profits/losses are included in the earnings number. Items which are abnormal in size or nature are included but should be flagged.
- *Profits and losses on the sale of fixed assets or of businesses* should be excluded. This does not apply to assets acquired for resale, such as marketable securities.
- Profits and losses arising in activities discontinued at some point in the period, or in activities acquired at some point in the period, should remain in the earnings figure. Costs of eliminating a discontinued operation, or of making an acquisition, are excluded.

Further information on the FT's treatment of earnings is available from The Manager, FT Statistics, One Southwark Bridge, London SE1 9HL.

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

WORLD STOCK MARKETS

CANADA

TORONTO

Jul 30 - closed Aug 2

Quotations in cents unless marked $

MONTREAL

4 pm close August 2

Total Sales 33,722,825 shares

INDICES

NEW YORK

DOW JONES	July 30	July 29	July 28	July 27	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3539.47	3567.42	3553.45	3565.46	3567.70 (26/7)	3241.95 (20/1)	3567.70 (26/7/93)	41.22 (2/7/32)
Home Bonds	108.20	108.26	107.82	107.78	108.26 (29/7)	103.49 (11/1)	501.97 (27/4/93)	54.99 (1/10/81)
Transport	1613.81	1594.15	1588.81	1581.12	1683.06 (16/4)	1453.84 (4/1)	1683.06 (16/4/93)	12.32 (8/7/32)
Utilities	250.00	250.86	248.71	248.35	250.86 (29/7)	217.14 (8/1)	250.86 (29/7/93)	10.50 (8/4/32)

DJ Indl. Day's High 3581.11 (3580.41) Low 3515.72 (3531.37) (Theoretical)♦
Day's High 3567.70 (3579.43) Low 3530.81 (3551.77) (Actual)

STANDARD AND POOR'S

	July 30	July 29	July 28	July 27	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	448.13	450.24	447.19	449.24	456.33 (10/3)	429.05 (8/1)	456.33 (10/3/93)	4.40 (1/6/32)
Industrials♥	506.95	509.51	506.87	508.28	524.99 (10/3)	496.40 (26/4)	524.99 (10/3/93)	3.62 (21/6/32)
Financial	45.98	46.33	45.67	45.83	46.67 (13/4)	38.89 (8/1)	46.67 (13/4/93)	8.64 (1/10/74)
NYSE Composite	248.49	249.34	247.80	248.94	251.36 (10/3)	236.21 (8/1)	251.36 (10/3/93)	4.46 (25/4/42)
Amex Mkt. Value	437.08	436.59	434.78	434.77	440.95 (4/6)	395.84 (8/1)	440.95 (4/6/93)	29.31 (9/12/72)
NASDAQ Composite	704.70	707.24	705.59	701.00	712.49 (14/7)	645.87 (26/4)	712.49 (14/7/93)	54.87 (31/10/72)

	Jul 23	Jul 16	Jul 9	year ago (approx.)
Dow Industrial Div. Yield	2.83	2.85	2.93	3.17

	Jul 29	Jul 21	Jul 14	year ago (approx.)
S & P Industrial div. yield	2.59	2.56	2.52	2.68
S & P Indl. P/E ratio	25.06	25.09	25.37	28.50

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Lyondell	6,485,400	18	+ 1/8
Merck	4,569,500	30 5/8	+ 1/8
General Motors	4,066,900	40 1/2	+ 1
RJR Nabisco	3,744,600	5	- 1/8
Sunshine Mng	3,165,600	3 1/2	---
Walt Disney	2,915,800	37 1/2	- 1 1/8
Schering Plough	2,639,400	61 1/4	- 1 3/4
Placer Dom	2,620,300	22 3/8	+ 1/2
Pfizer	2,574,400	59 1/2	- 2 1/4
Beverly Ent	2,393,800	10 7/8	+ 1/8

TRADING ACTIVITY

† Volume (Millions)	July 30	July 29	July 28
New York SE	250.381	260.796	269.791
Amex	18.693	17.968	15.098
NASDAQ	(u)	275.196	265.344
NYSE			
Issues Traded	2,568	2,580	2,574
Rises	921	1,237	917
Falls	1,010	720	986
Unchanged	638	623	671
New Highs	96	119	80
New Lows	38	36	50

CANADA

TORONTO	July 30	July 29	July 28	July 27	1993 HIGH	1993 LOW
Metals & Minerals	2992.48	2916.27	2920.94	2924.74	3020.46 (2/7)	2743.31 (21/1)
Composite	3957.20	3967.55	3923.10	3911.89	3997.72 (2/7)	3275.80 (21/1)
MONTREAL Portfolio	1889.98	1888.39	1870.54	1861.81	1938.10 (25/6)	1730.97 (21/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals - 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Indl. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

	Aug 2	July 30	July 29	July 28	1993 HIGH	1993 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1854.5	1844.0	1828.5	1818.4	1854.80 (2/8)	1495.00 (13/1)
All Mining (1/1/80)	904.5	882.9	859.6	846.0	904.50 (2/8)	684.70 (13/1)
AUSTRIA						
Credit Aktien (30/12/84)	382.58	387.55	385.49	387.39	391.33 (27/7)	300.26 (14/1)
Traded Index (2/1/91)	950.62	948.59	959.81	959.47	976.12 (27/7)	712.06 (15/1)
BELGIUM						
BEL20 (1/1/91)	1344.63	1325.36	1308.61	1301.57	1344.63 (2/8)	1125.46 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	325.64	318.56	313.74	309.98	325.64 (2/8)	261.90 (4/1)
FINLAND						
HEX General (28/12/90)	1311.7	1289.7	1277.5	1278.0	1311.70 (2/8)	843.10 (22/1)
FRANCE						
CAC General (31/12/81)	572.11	558.72	544.91	548.75	572.11 (2/8)	471.24 (13/1)
CAC 40 (31/12/87)	2129.03	2085.88	2036.00	1989.53	2129.03 (2/8)	1772.21 (28/1)
GERMANY						
FAZ Aktien (31/12/58)	701.36	701.23	709.09	712.63	716.22 (26/7)	598.92 (14/1)
Commerzbank (1/12/53)	1993.5	1997.4	2015.8	2025.6	2035.80 (26/7)	1694.30 (14/1)
DAX (30/12/87)	1815.06	1803.23	1833.70	1833.91	1854.52 (26/7)	1516.50 (13/1)
HONG KONG						
Hang Seng Bank (31/7/64)	7029.03	6998.96	6859.93	6893.71	7447.24 (27/5)	5437.80 (4/1)
IRELAND						
ISEQ Overall (4/1/88)	(c)	1647.54	1636.95	1635.58	1647.64 (30/7)	1191.19 (11/1)
ITALY						
Banca Com. Ital. (1972)	572.81	563.43	561.24	558.18	572.87 (2/8)	446.33 (6/1)
MIB General (4/1/93)	1253.0	1242.0	1237.0	1230.0	1253.00 (2/8)	992.00 (11/1)
JAPAN						
Nikkei (16/5/49)	20343.53	20380.14	20456.85	19829.88	21076.00 (3/6)	16287.45 (25/1)
Tokyo SE (Topix) (4/1/68)	1654.79	1659.81	1680.06	1622.39	1675.13 (7/6)	1250.05 (25/1)
2nd Section (4/1/68)	2230.95	2229.81	2217.29	2203.48	2364.97 (7/6)	1651.72 (26/1)
MALAYSIA						
KLSE Composite (4/4/86)	783.46	786.06	784.79	783.97	786.03 (30/7)	614.25 (13/1)
NETHERLANDS						
CBS Tll.Rtn.Gen.(End 1983)	361.1	362.0	359.9	357.8	362.00 (30/7)	295.70 (4/1)
CBS All Shr (End 1983)	226.9	227.5	226.2	224.3	227.50 (30/7)	178.80 (13/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	571.47	568.42	556.30	560.75	571.47 (2/8)	469.93 (27/1)
PHILIPPINES						
Manila Comp (2/1/85)	1775.86	1751.21	1738.53	1740.97	1775.86 (2/8)	1270.68 (4/1)
SINGAPORE						
SES All-Singapore (2/4/75)	458.28	454.18	454.17	452.52	468.48 (31/5)	394.10 (13/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	2077.0♥	2098.0	1988.0	1970.0	2095.00 (30/7)	773.00 (5/1)
JSE Industrial (28/9/78)	4611.0♥	4658.0	4568.0	4528.0	4718.00 (6/7)	4333.00 (19/4)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	719.45	730.50	743.21	748.03	777.25 (8/6)	605.93 (6/3)
SPAIN						
Madrid SE (30/12/85)	272.74	269.96	268.18	263.87	272.74 (2/8)	215.60 (4/1)
SWEDEN						
Affarsvärlden Gen. (1/2/37)	1207.7	1203.0	1194.1	1185.6	1207.70 (2/8)	878.10 (28/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	1032.4	1032.7	1032.1	1035.0	1046.80 (13/7)	804.90 (11/1)
SBC General (1/4/87)	824.9	824.4	824.5	825.2	827.90 (13/7)	678.70 (11/1)
TAIWAN**						
Weighted Price (30/6/66)	3948.56	3994.20	4022.62	4019.93	5613.28 (7/4)	3098.43 (9/1)
THAILAND						
Bangkok SET (30/4/75)	938.24	928.20	924.62	908.36	958.44 (25/1)	818.84 (1/6)
WORLD						
M.S. Capital Intl.(1/1/70) $	579.1*	578.0	577.4	571.7	579.20 (30/7)	495.60 (13/1)
Euro Top-100 (26/6/90)	1085.56	1086.17	1058.94	1050.38	1086.17 (30/7)	862.73 (13/1)

**Saturday July 31: Taiwan Weighted Price: 3980.38, Korea Comp Ex: 728.94.
♥ Subject to official recalculation.

*Calculated at 15.00 GMT.

Base values of all indices are 100 except Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX - 1,000, JSE Gold - 255.7, JSE 20 Industrials - 264.3 and Australia All Ordinary and Mining - 500; (c) Closed. (u) Unavailable

TOKYO - Most Active Stocks

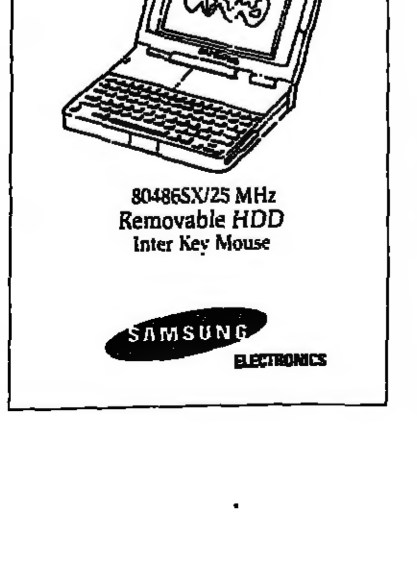
Monday, August 2, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsui Min & Sml	12.4m	558	+11	Nagase & Co	2.4m	1,200	+40
Nikkatsu	11.7m	23	-5	Mitsubishi Hvy	2.0m	680	
Sumitomo Mtl Min	5.3m	1,090	+20	SXL Corp	1.8m	1,380	
Ebara	2.7m	1,860	+50	NEC Corp	1.6m	1,010	-10
Nippon Steel	2.5m	305	-5	Cosmo Oil	1.6m	877	-3

4 pm close August 2

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	1993 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng. Prev. Close
14⅝	11½	AAR Corp	0.48	3.6	675	140	13½	13¼	13½	+¼
29⅞	13¾	A L Labs A	0.18	1.1	27	6095	16	15⅛	15¾	+1⅛
64¾	54⅝	AMP Inc	1.60	2.5	22	1629	u64¾	63⅞	64¼	+¾
72¾	55½	AMR			16	2729	66⅜	65	65	-½
2¾	1¾	ARX			15	49	2⅝	2½	2½	
51½	29⅞	ASA	2.00	4.1	32	945	49¾	48⅜	49⅛	-½
30¾	22⅞	Abbott Lab	0.68	2.7	15	6963	25⅜	24¾	25	
12⅝	9⅞	Abitibi Pr	0.50	4.9	4	12	10⅛	10⅛	10⅛	
14¼	8¼	Acpmceln			231	54	13⅞	13½	13⅞	+¼
32	25½	ACE Ltd	0.40	1.4		378	28⅜	28	28	-⅛
12	10⅝	ACM Gvt In	0.96	8.3		92	11⅝	11½	11½	
10	9⅛	ACM GvOpp	0.80	8.0		5	u10	10	10	+⅛
9⅞	8¾	ACM Gvt Sp x	0.80	8.4		409	9⅝	9½	9½	+.80
11⅝	10½	ACM Gvt Se x	0.96	8.5		350	11¼	11	11¼	+⅛
11⅝	9⅝	ACM Man	1.08	9.6		241	11⅜	11⅛	11¼	+⅛
9⅝	8⅝	ACM Managd	0.72	7.9		271	9¼	9⅛	9⅛	
12⅞	7¾	Acme Cleve	0.44	4.0	14	117	11	10⅞	11	
9¼	6½	Acme Elect			254	19	7⅞	7⅝	7⅝	
24¾	18⅜	Acordia	0.44	1.8	14	192	24½	24⅛	24½	+⅝
16	10⅜	Acuson			33	404	12½	12⅛	12⅜	-⅛
22¼	18⅝	Adams Expr	0.48	2.3	1	451	21	20⅝	20⅞	
68	45½	Ad Micro	3.00	5.5		190	55	54	54⅞	+1⅜
32¾	17⅝	Ad Micro P	3.00	12.2	9	3558	24⅞	24¼	24⅝	+⅜
7⅜	5½	Advest Grp	0.16	2.7	10	26	5⅞	5¾	5⅞	+⅛
24¾	16¾	Aetna Inc	0.08	0.5	16	87	17	d16¾	17	+¼
49⅜	41⅛	Aegon ADR	2.95	6.5	9	331	45⅝	44⅛	45⅝	+1⅜
60	43¾	Aetna Lf	2.76	4.7	150	1217	59¼	58⅝	58⅞	+½
14½	11½	AMI A	0.26	1.8	30	1000	14¼	14⅛	14¼	+⅛
32¼	26⅝	Aflac	0.40	1.3	15	540	29⅞	29½	29⅞	+¼
22⅛	16¾	Ahmanson	0.88	4.5	23	7220	19⅝	19⅜	19¾	+¼
7¾	4	Aileen Inc			7	121	4¾	4⅝	4¾	+½
48½	37½	Air Pr Chm	0.92	2.3	16	1236	41	40¼	40⅞	+⅝
57½	44¾	Bausch Lomb	0.88	2.0	14	3301	45	d43⅞	44⅜	-⅞
32¾	26	Baxter	1.00	3.8	74	8257	26⅞	d26	26	-½
29⅞	24⅜	Bay St Gas	1.42	4.9	15	48	28¾	28⅜	28¾	+¼
25	22	Bd Tr 1638	1.72	7.1		8	24⅛	24	24⅛	-⅛
24¾	15¾	Bear Stns	0.60	2.5	8	2520	u24⅝	24	24⅜	+¼
50	45½	BearStPfA	2.77	5.7		5	49	49	49	
24¾	20½	Bearings	0.64	3.0	74	46	21¾	21½	21½	+⅛
25½	19¾	Beckman In	0.36	1.6	13	601	22¾	22	22	



Continued on next page

4 pm close August 2

NYSE COMPOSITE PRICES

Continued from previous page

[illegible]

Price data supplied by Telekurs

[illegible]

AMEX COMPOSITE PRICES

4 pm close August 2

[illegible]

NASDAQ NATIONAL MARKET

4 pm close August 2

[illegible]

FINANCIAL TIMES Tuesday August 3 1993

AMERICA

US equities take their cue from Europe

Wall Street

US shares rebounded yesterday after Friday's heavy selling, and prices posted solid gains in the wake of sharply firmer overseas equity markets, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was up 15.65 at 3,555.12. The more broadly based Standard & Poor's 500 was 1.21 higher at 449.34, while the Amex composite was down 1.07 at 435.99, and the Nasdaq composite up 2.35 at 707.05. Trading volume on the NYSE was 131m shares.

After last week's late sell-off, which knocked nearly 30 points off the Dow, the markets opened in an upbeat mood. Early morning gains in London, Paris and Frankfurt stock markets, which reacted positively to the European Community finance ministers' decision to ease restrictions in the European Exchange Rate Mechanism and allow currencies more room to fluctuate, boosted prices from the start.

US investors hope that the relaxing of the ERM bands will allow European governments to lower their interest rates to boost local economic growth. Stronger growth in Europe should mean stronger demand for US exports, a part of the US economy that investors have been worried about lately.

There was also some, admittedly modest, good news at home, in the form of a rise in the National Association of Purchasing Management's July index of manufacturing activity. Although the index remains weak by normal post-recession standards, the increase was seen by investors as a welcome move in the right direction.

Among individual stocks, blue-chips and cyclicals, which took the hardest battering last Friday, rallied. Caterpillar gained $1⅝ at $78½, Minnesota Mining & Manufacturing put on $1⅜ at $106⅜, Eastman Kodak firmed $¾ to $54½ and Coca-Cola added $½ at $43¾.

Motor stocks continued to outperform the market. Chrysler rose $⅞ to $44¼, Ford climbed $1¼ to $54⅛, and General Motors firmed $⅞ to $49⅝.

Semiconductor stocks were also in demand, lifted by positive comments about the sector in the Wall Street Journal. Motorola rose $2½ to $93¼, Texas Instruments added $⅞ at $71⅜, and National Semiconductor edged $⅜ higher to $16⅞.

Boeing fell $⅜ to $39 on reports that the company may cut aircraft production if it fails to land an important order from Saudi Arabia.

On the Nasdaq market, Dell Computer firmed $¾ to $20⅞ in volume of more than 1m shares on hopes that the company's performance will improve following the introduction of new products and a new marketing strategy.

● TORONTO was closed for a public holiday.

SOUTH AFRICA

IN SPITE of a strong start as bullion held firm above $400 an ounce, gold shares showed a downward trend through much of the day, the index slipping 28 to 2,070. Industrials moved forward 12 to 4,610 and the overall index shed 14 to 4,163.

De Beers ended 75 cents up at R86.75, while associate Anglos shed R3 to R150 after recent strength. Gold division Amgold eased R1 to R369.

Vaal Reefs retreated R5 to R396 after hitting R410.50 early in the day. Kloof firmed R1 to R402.

Doornfontein came off the day's low of R4.50 to finish a net 35 cents down at R4.75. Dealers said news that it had lost a court action on its dismissal of about 6,000 workers in 1991 would not have helped general negative market sentiment.

EUROPE

Frankfurt strengthens after ERM developments

CONTINENTAL bourses were generally encouraged by weekend developments, although some consolidation might be expected over the next few days as the expected round of interest rate cuts has, in many cases, already been discounted, *writes Our Markets Staff.*

FRANKFURT surprised many analysts by rising on the day, the DAX index closing 11.85 higher at 1,815.08, having moved between a range of 1,823 and 1,795.

Turnover was DM6bn.

However, activity was reported as being confused after the weekend's events, and the market is generally expected to remain slightly volatile until longer term European trends become visible.

In spite of the likely loss of competitiveness in export markets, companies with exposure did not suffer the expected declines. Volkswagen for instance rose slightly, by 30 pfg to DM348.50, while BMW gained 50 pfg to DM544.00.

Mr Patrick Shields, of NatWest Securities, also noted strength in stores, Karstadt was up DM14 or 2.5 per cent at DM575, and financials; while Viag, up DM12.80 at DM436.50, was still benefiting from week old news of its increased stake in Bayernwerke.

Allianz, one of the day's biggest gainers, up DM55 at DM2,315, was helped by a buy recommendation from a domestic institution.

PARIS continued its uninterrupted rally with the CAC-40 index nudging close to the all time record high, finishing up 43.15 or 2 per cent at 2,129.03. Turnover eased back to FFr6.8bn from Friday's massive FFr11.5bn.

Goldman Sachs yesterday raised its 12-month forecast for the CAC-40 to between 2,600-2,700, with expectations that it will reach 2,300 within the next quarter.

Among the movers Axa gained FFr30 to FFr1,480, Soc-Gen FFr22 to FFr662, Bouygues FFr13 to FFr705, Carrefour FFr113 to FFr3,118 and LVMH by FFr69 to FFr4,194.

AMSTERDAM drifted lower amid concern over the export sector, although there were some notable exceptions to the general trend. The CBS Tendency index ended off 1.20 or 1 per cent at 120.80.

FT-SE Actuaries Share Indices

August 2								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1247.28	1248.95	1249.49	1251.71	1256.37	1253.45	1251.95	1252.49
FT-SE Eurotrack 200	1355.62	1350.99	1352.32	1353.94	1351.69	1352.65	1347.41	1347.49

	Jul 30	Jul 29	Jul 28	Jul 27	Jul 26
FT-SE Eurotrack 100	1253.91	1242.42	1238.35	1238.95	1240.21
FT-SE Eurotrack 200	1343.59	1308.99	1297.56	1297.42	1294.91

Base value 1000 (26/10/90) High/day: 100 - 1256.51; 200 - 1355.63 Low/day: 100 - 1247.13 200 - 1348.21

Nomura's global equity strategists see a buying opportunity in the Netherlands, recommending a switch into Dutch equities from France and Switzerland, forecasting that the market will benefit from dollar strength.

Akzo, which releases second quarter results tomorrow, and Aegon were among the day's gainers, with respective gains of 30 cents and Fl 1.30 to Fl 167.80 and Fl 87.60.

Polygram, due to release first half figures today, was off 50 cents at Fl 55.90, and Philips down 10 cents at Fl 31.10.

BRUSSELS put on 1.4 per cent to an all-time high with the strength of the dollar improving the prospects for exporters. The Bel-20 index rose 18.27 to 1,344.63 in turnover of almost BFr1.57bn.

Electrabel, the interest rate sensitive electricity utility, was the day's most active issue, rising BFr20 to BFr6,260.

MADRID moved firmly ahead at the opening, pulled higher by the strength of equities and bond futures, but a subsequent strengthening of the peseta against the dollar left many domestic investors taking profits. The general index rose 2.78 to 272.74.

Gains were seen across the board but foreigners were active buyers of banks.

Argentaria led the sector higher, rising Pta210 to Pta5,560, with Banesto Pta55 ahead at Pta2,225, BCH Pta20 ahead at Pta3,710 and BBV Pta60 firmer at Pta3,290.

LISBON's BTA index rose 38.7 or 1.7 per cent to 2,296.3 as the central bank cut its emergency rate for one day lending to resident banks to 13 per cent from 14.5 per cent.

MILAN gave up some ground after a late round of profit-taking and the Comit index finished 9.38 ahead at 572.81.

Trading was dominated by foreign demand for telecommunications issues. Sip, the domestic telephone company, rose L59 to L2,973 in volume of 13.2m shares while Stet, its parent, added L78 to L4,049 with almost 11m shares traded.

ZURICH was little changed as investors turned their attention to other European markets and the SMI index finished 0.6 lower at 2,400.3.

VIENNA rebounded from opening levels in healthy volumes and the ATX index gained 2.03 to 950.62, having picked up from a day's low of 929.36.

The early weakness was attributed to uncertainty in the wake of Europe's currency turmoil, but the market received reassurance when German shares began to gain.

COPENHAGEN closed 4 per cent ahead, the KFX index ending at 95.65. Unibank Securities commented that the market has lagged the rest of Europe because of the central bank's efforts to avoid a devaluation of the currency. "Over the last month the market has risen 1.1 per cent, while the Eurotrack has risen by 6.7 per cent. However, following the ERM agreement the krone will now fluctuate within a wider band...with market estimates of between 5-10 per cent".

STOCKHOLM's Affärsvärlden general index recorded another year's high, up 4.70 at 1,207.70. In **HELSINKI** the HEX index added 1.6 per cent, closing at 1,310.2, while **NORWAY's** All Share index was little altered, losing 0.16 to 531.26.

ISTANBUL rose 2.16 per cent as the market overcame uncertainty following last Friday's resignation of Mr Rusdu Saracoglu, the central bank governor, and the market index added 218.3 to 10,295.9.

Mr Saracoglu had quarrelled with Prime Minister Tansu Çiller over her plans to cut interest rates and use central bank funds to finance deficits.

ASIA PACIFIC

Strong yen prompts wave of selling in export issues

Tokyo

THE YEN'S strength prompted concern over the profitability of leading exporters, and share prices lost ground with many investors inactive, *writes Emiko Terazono in Tokyo.*

The Nikkei average shed 36.61 to 20,343.53 after a day's high of 20,412.64 on arbitrage-linked buying during the first few minutes of trading, and a low of 20,231.32 in the afternoon session.

Volume came to 210m shares, falling below 300m for the first time in three trading days. Financial institutions reshuffled portfolios, while investment trusts were inactive. Declines led advances by 616 to 336, with 196 issues unchanged. The Topix index of all first section stocks slipped 5.12 to 1,654.79, but in London the ISE/Nikkei 50 index edged up 0.31 to 1,250.92.

Export-oriented companies, including car manufacturers, electricals, and precision instrument makers, were sold in response to the higher yen. Honda Motor dipped Y30 to Y1,360, Hitachi Y16 to Y853 and Canon Y30 to Y1,340.

Steels and shipbuilders, already facing lower profits due to the higher yen, also lost ground. Nippon Steel retreated Y5 to Y365 and Kawasaki Heavy Industries Y3 to Y417.

A further rise in gold bullion prices supported mining shares. Mitsui Mining and Smelting, the most active issue of the day, advanced Y11 to Y556, while Sumitomo Metal Mining gained Y20 at Y1,090.

Profit-taking depressed Nikkatsu, the bankrupt movie producer, by Y5 to Y23. The issue gained ground last week on reports that Namco, a video game maker, was considering helping Nikkatsu's rehabilitation programme.

Banks were some of the few bright spots of the day. Speculation that financial stocks will have a larger weighting in the new capitalisation weighted futures index, which will replace the Nikkei 225 index later this year, encouraged buying. Dai-Ichi Kangyo Bank moved up Y10 to Y2,350 and Mitsubishi Bank Y30 to Y2,930.

In Osaka, the OSE average declined 73.11 to 22,391.04 in volume of 8.4m shares. Nintendo, the video game maker, weakened Y290 to Y9,500 on profit-taking.

Roundup

A MIXED mood was again seen in the Pacific Rim.

AUSTRALIA was swept to a fresh post-1987 crash peak as bullion continued its higher trend and the All Ordinaries index advanced 10.8 to 1,854.8 in turnover of A$355.8m.

Among gold stocks helping to push the golds marker 4.4 per cent ahead, Poseidon and Kidston each rose 30 cents to A$5.10 and A$2.90 respectively.

Elsewhere, Foodland jumped 48 cents to A$8.08 on news that it was considering an A$1.1bn merger with Davids Holdings.

MANILA continued its record-setting ways, again boosted by a rise by Philippine Long Distance Telephone on Wall Street, an advance by gold prices and aggressive buying. The composite index added 24.65, ending at an all-time high of 1,775.86. PLDT climbed 25 pesos to 1,105 pesos, after a $¾ rise to $39¼ on Wall Street last Friday.

SINGAPORE was boosted by banking stocks, which forged ahead in response to an earnings report by United Overseas Bank. The Straits Times Industrial index firmed 4.24 to 1,813.24.

NEW ZEALAND followed last week's rise to a three-year high with a solid session which saw the NZSE-40 capital index recover from an early 9.67-point retreat to end only a net 0.71 easier at 1,815.33.

Small companies had a particularly strong day, with the NZSE smaller companies capital index rising 72.1 to 4,180.8.

TAIWAN ended softer after trading narrowly in the lowest turnover since January. The weighted index, which moved in a 21-point range, closed 13.82 down at 3,946.56. Turnover shrank to T$8.93bn from the T$9.62bn registered in the shortened Saturday session.

SEOUL suffered from institutional sales, exacerbated by stop-loss selling by individual investors, which left the market lower for the fifth straight session. The composite index shed 10.49 to 719.45.

The market is under pressure from the redemption of Won2,900bn in special central bank loans to investment trusts next week.

HONG KONG finished off an early peak, although the Hang Seng index maintained a 40 advance to end at 7,029.09.

KUALA LUMPUR extended Friday's losses on further liquidation with investors concerned over the market's direction. The composite index lost 2.52 to 763.46.

BANGKOK closed at the day's high after strong demand for property and building material companies. The SET index put on 10.04, or 1.1 per cent, at 938.24.

New Zealand moves to a three-year high

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1993	Start of 1993	Start of 1993
Austria	+0.35	+9.90	+18.27	+20.03	+13.24	+11.07
Belgium	+1.36	+3.16	+18.55	+20.12	+11.11	+8.98
Denmark	+2.73	+1.29	+5.27	+23.06	+15.91	+13.68
Finland	+6.52	+11.87	+109.53	+63.66	+46.41	+43.63
France	+4.04	+6.76	+17.38	+14.39	+8.26	+6.18
Germany	-1.55	+5.53	+10.04	+16.40	+10.42	+8.31
Ireland	+2.16	+1.60	+30.07	+37.29	+19.24	+16.95
Italy	+3.01	+6.82	+63.74	+39.33	+29.78	+27.28
Netherlands	+2.86	+3.90	+22.21	+19.48	+13.00	+10.83
Norway	+3.56	+6.97	+19.15	+25.02	+18.08	+15.81
Spain	+3.68	+4.00	+26.48	+26.19	+1.71	-0.24
Sweden	+3.84	+8.96	+41.01	+21.41	+6.18	+4.14
Switzerland	+1.80	+1.16	+30.76	+16.92	+14.74	+12.54
UK	+3.52	+2.49	+24.50	+4.63	+4.63	+2.63
EUROPE	+2.60	+4.01	+23.61	+13.30	+8.80	+6.81
Australia	+1.10	+3.31	+8.50	+14.31	+14.85	+12.65
Hong Kong	+3.21	-3.76	+15.67	+26.64	+28.89	+26.41
Japan	+3.30	+5.02	+39.98	+25.93	+52.73	+49.80
Malaysia	+1.23	+4.81	+48.54	+31.49	+36.81	+34.19
New Zealand	+6.03	+7.30	+22.77	+20.72	+32.55	+30.03
Singapore	-1.67	-1.09	+20.17	+15.56	+19.49	+17.21
Canada	+3.31	-1.89	+7.03	+10.44	+11.46	+9.33
USA	+0.17	+0.42	+6.19	+2.91	+4.93	+2.91
Mexico	+5.74	+5.37	+16.16	-2.66	-0.71	-2.61
South Africa	+5.26	+1.06	+22.57	+34.44	+48.21	+45.37
WORLD INDEX	+1.92	+2.67	+19.37	+12.71	+19.18	+16.91

† Based on July 30th 1993.

By John Pitt

In a week in which most investors' eyes were firmly fixed on the dramatic events unfolding in Europe, there was still plenty of activity occurring elsewhere to excite interest.

A sharp rise in the price of gold bullion lifted South Africa, and Mexico gained ground on good Telmex results, while firmness in Japan on optimism that the political impasse there might be settled contributed to a near 2 per cent local currency advance for the FT-Actuaries World index.

New Zealand achieved the second biggest gain on the week, just behind Finland, with the local index recording a three-year peak in high volumes. Sentiment was encouraged by better than expected three-month figures from Telecom, with expectations of good full year figures.

Analysts commented that most of the buying was domestic, but followed a trend elsewhere in the world, whereby investors are seeking out high yielding stocks and moving funds into equities.

One of the few exceptions to an otherwise positive week in the global equity markets was Singapore. Since the beginning of the year the Straits Times Industrial index has advanced some 19 per cent; but from the all-time high set at the end of May, the index has receded some 5 per cent.

Baring Securities, in a recent review of the market, says the current period of consolidation is to be expected given the high level of expectation that has been built into prices during the rally of the first half.

With the interim reports season under way, Baring expects strong performances from the electronics and property sectors. With regard to the latter, the broker cautions that "bullish prospects have largely been built into prices, which suggest that there is little scope for significant upward price movements, even though trading volume will remain strong because of abundant liquidity".

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY JULY 30 1993								THURSDAY JULY 29 1993					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993 High	1993 Low	Year ago (approx)
Australia (69)	140.95	+0.8	140.72	93.51	127.54	138.32	+0.5	3.63	139.77	139.40	93.83	126.04	137.59	144.19	117.39	142.36
Austria (17)	155.68	-2.4	155.42	103.28	140.87	140.90	-1.4	1.38	159.49	159.07	107.07	143.82	142.98	160.59	131.16	154.61
Belgium (42)	145.19	+0.6	144.95	96.31	131.37	131.22	+1.9	4.36	144.26	143.88	96.84	130.09	128.78	156.76	131.19	147.30
Canada (108)	126.43	+0.4	126.22	83.87	114.39	117.59	+0.2	2.86	125.94	125.61	84.54	113.56	117.41	130.38	111.41	128.52
Denmark (33)	211.59	+0.0	211.25	140.37	191.46	195.47	+0.6	1.16	211.67	211.11	142.10	190.88	194.33	225.64	185.11	240.31
Finland (23)	99.98	-1.2	99.81	66.33	90.47	125.05	+0.7	0.97	101.19	100.92	67.93	91.25	124.12	101.27	65.50	71.54
France (97)	156.27	+1.6	156.02	103.66	141.39	145.91	+2.0	3.14	153.87	153.46	103.28	138.74	143.00	167.36	142.72	156.16
Germany (60)	112.69	-2.0	112.50	74.77	101.97	101.97	-1.7	2.08	115.02	114.72	77.22	103.72	103.72	117.10	101.59	119.29
Hong Kong (55)	280.08	+1.3	279.63	185.81	253.45	278.88	+1.3	3.40	276.42	275.69	185.56	249.27	275.23	301.61	218.82	244.47
Ireland (15)	158.79	+0.5	158.54	105.35	143.69	161.84	+1.1	3.41	157.94	157.53	106.03	142.43	160.11	170.40	129.28	158.58
Italy (70)	69.84	+1.3	69.73	46.33	63.19	84.13	+1.5	1.93	68.97	68.79	46.30	62.19	82.91	72.82	53.78	62.57
Japan (470)	157.34	+1.2	157.08	104.38	142.39	104.38	+0.0	0.80	155.51	155.11	104.40	140.25	104.40	157.34	100.75	94.83
Malaysia (69)	350.86	+0.5	350.29	232.75	317.48	346.33	+0.4	1.96	349.18	348.26	234.40	314.87	344.88	350.86	251.66	243.47
Mexico (19)	1604.83	+1.4	1602.23	1064.66	1452.19	5471.85	+1.5	0.90	1582.33	1578.16	1062.23	1426.88	5393.38	1725.81	1410.30	1386.80
Netherland (24)	167.80	+0.1	167.53	111.32	151.84	150.18	+0.7	3.66	167.62	167.18	112.52	151.16	149.18	172.75	150.39	162.23
New Zealand (13)	55.77	+2.9	55.67	37.00	50.46	53.49	+2.4	4.17	54.19	54.05	36.38	48.87	52.22	55.77	40.56	46.02
Norway (22)	159.48	+1.4	159.23	105.80	144.32	161.65	+2.2	1.63	157.21	156.80	105.54	141.77	158.23	166.21	137.71	169.12
Singapore (38)	250.07	-0.3	249.67	165.90	226.28	186.40	-0.1	1.86	250.85	250.19	168.40	226.21	186.64	262.72	207.04	209.73
South Africa (60)	215.29	+2.7	214.94	142.82	194.81	211.28	+2.6	2.43	209.56	209.02	140.69	188.98	205.90	215.29	144.72	205.55
Spain (44)	116.33	-1.3	116.14	77.18	105.26	127.70	+0.5	4.58	117.85	117.54	79.11	106.27	127.04	132.82	115.23	139.93
Sweden (36)	172.42	+1.3	172.14	114.39	156.03	210.46	+1.4	1.60	170.19	169.74	114.25	153.47	207.60	184.06	149.70	189.47
Switzerland (50)	127.18	+0.0	126.97	84.37	115.09	120.04	-0.1	1.81	127.14	126.80	85.35	114.66	120.16	129.36	108.91	112.07
United Kingdom (218)	176.89	+0.3	176.60	117.34	160.05	176.60	+0.4	3.93	176.37	175.91	118.39	159.03	175.91	181.99	162.00	182.83
USA (520)	183.28	-0.5	182.99	121.60	165.86	183.28	-0.5	2.79	184.16	183.67	123.63	166.07	184.16	186.27	175.38	172.74
Europe (751)	145.27	+0.1	145.04	96.38	131.46	141.45	+0.4	3.15	145.10	144.72	97.41	130.85	140.84	149.02	133.92	147.31
Nordic (114)	163.83	+0.7	163.56	108.69	148.25	174.12	+1.2	1.42	162.69	162.26	109.21	146.71	172.12	171.77	142.13	176.29
Pacific Basin (714)	160.30	+1.1	160.04	106.34	145.05	110.85	+0.1	1.06	158.47	158.06	106.39	142.91	110.76	160.30	105.89	101.56
Euro-Pacific (1465)	154.01	+0.7	153.76	102.17	139.36	123.65	+0.2	1.87	152.87	152.47	102.61	137.84	123.38	154.05	117.26	120.06
North America (628)	179.74	-0.4	179.45	119.26	162.67	178.81	-0.4	2.79	180.53	180.06	121.21	162.83	179.62	182.38	171.51	169.97
Europe Ex. UK (533)	125.67	+0.0	125.47	83.39	113.74	121.01	+0.5	2.62	125.67	125.33	84.38	113.34	120.45	128.65	112.51	125.79
Pacific Ex. Japan (244)	190.10	+1.0	189.79	126.13	172.03	175.68	+0.8	3.15	188.29	187.80	126.42	169.81	174.21	194.06	152.70	167.79
World Ex. US (1652)	154.61	+0.8	154.36	102.58	139.91	125.75	+0.3	1.90	153.42	153.02	103.00	138.35	125.41	154.61	118.51	122.06
World Ex. UK (1954)	161.35	+0.3	161.59	107.38	146.47	140.27	-0.1	2.06	161.36	160.93	108.33	145.52	140.35	161.85	134.22	133.99
World Ex. So. Af. (2112)	162.94	+0.3	162.67	108.10	147.45	143.05	+0.0	2.23	162.48	162.05	109.08	146.53	143.10	162.94	137.29	137.80
World Ex. Japan (1702)	168.38	-0.1	168.10	111.71	152.38	165.32	+0.0	2.91	168.55	168.10	113.16	152.01	165.33	170.06	157.47	162.32
The World Index (2172)	163.20	+0.3	162.93	108.27	147.88	143.62	+0.0	2.23	162.70	162.27	109.23	146.73	143.63	163.20	137.32	138.21

Latest prices were unavailable for this edition.